Ontario

AGENCIES, BOARDS AND COMMISSIONS PROJECT

Report prepared for the
Ministry of Treasury and Economics
and the
Management Board of Cabinet

July 1985

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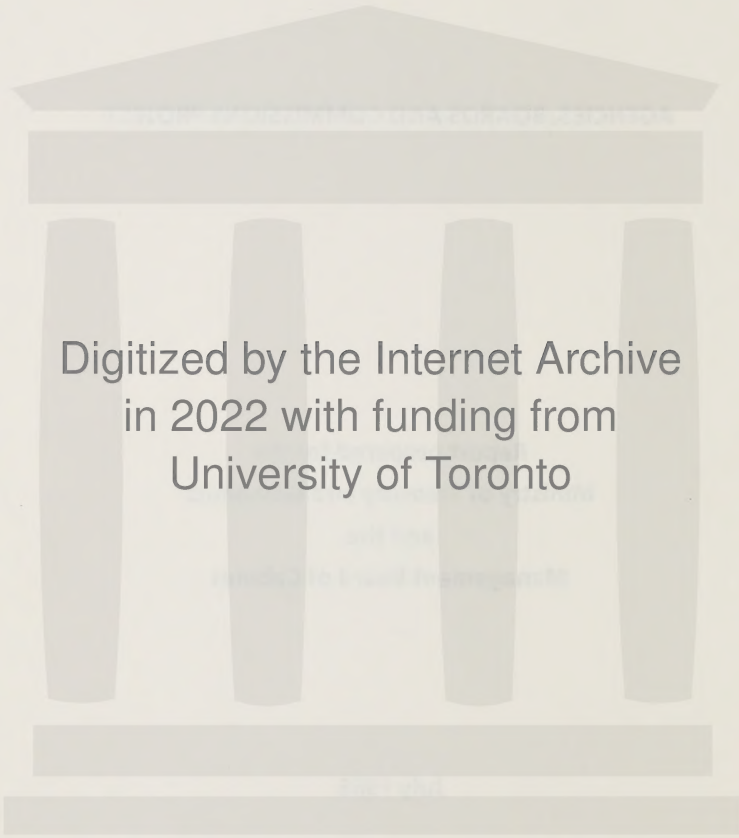

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August 7, 1985

MEMO TO: Brock Smith,
Deputy Treasurer

AND TO: John Sloan,
Secretary, Management Board of Cabinet

I hereby submit the final report of the agencies, boards and commissions project which was undertaken for the Government of Ontario in June, 1984.

The first section of this report deals with the direction, control and accountability of agencies, boards and commissions. The second section relates generally to the privatization of Ontario Crown corporations.

I wish to thank you, your predecessors and the staff of your ministries, particularly those who served on the technical committee, for their support and assistance during this review.

D. P. Gracey

DPG:mc
Encl.

07/08/85

PROPOSAL FOR A STUDY OF AGENCIES, BOARDS AND COMMISSIONS

The Ontario Government wishes to undertake a review of its Agencies, Boards and Commissions so that this component of Government organization remains effective, efficient and responsive.

Background

The Ontario Government has in the last twenty years undertaken ongoing review of its organization. Work in the early 1960's (the Gordon Review), and in the early 1970's (the Committee on Government Productivity and Task Force Hydro), plus the follow-up work of Management Board of Cabinet, established a framework within which the regular departments of government and government agencies are managed. Later in the 1970's, Legislative and Government attention was given to the expanding number of agencies. This resulted in the establishment of an ongoing sunset review process.

The Government wishes to continue this development with a general review of its agencies, boards and commissions and the framework within which they operate. Because of its size and unique nature Ontario Hydro would be excluded from this study.

Terms of Reference

The study will therefore review the mandates and roles of existing agencies, their relationships and linkages with parent Ministries and central agencies, and propose a framework for future interrelationships. This framework will articulate a proposed range of processes, procedures and mechanisms for the control and direction of agencies and will also recommend the combinations to be applied to the various types of agencies.

The study will examine existing agencies, with major but not exclusive emphasis on those categorized as operational.

The study will provide a survey sample of the agency sector and comment on specific potential for containing this sector by:

- rationalizing the functions of agencies and ministries of Government
- identifying those agencies or parts of agencies which could be divested
- consolidating or merging existing agencies
- improving the accountability of agencies including the consideration of controls over the creation of new agencies and subsidiaries
- revising mandates, roles and relationships.

Finally the study will provide advice on the resolution of problems identified during the course of the Review.

Scope and Methodology

The study will be carried out through a series of discussions and interviews with key agency, ministry and central government staff. These discussions will cover existing mandates and political direction, control and accountability of financial and other administrative areas, corporate plans, acquisitions and creation of subsidiaries as well as specific problem areas.

Discussion will be held with staff of a sample of agencies, subsidiaries and their parent ministries.

General conclusions from these discussions will be drawn within the following general areas:

- The appropriateness of the current distribution of powers
- The adequacy of current agency acts and memoranda of understanding
- The adequacy of the degree of integration of policy and program planning between minister/ministry and agency
- The capacity to direct, control and hold agencies accountable
- The adequacy of the reporting vehicles, between agency and ministry, as well as between agency and central government and the adequacy of their scope
- The adequacy of internal agency management practices
- The degree of co-ordination between agencies, ministries and central agencies

Outputs

The study will produce several products:

1) A proposed general framework within which agencies, boards and commissions will work. This proposal would outline in guideline form, the information requirements, decision and approval procedures which will define a recommended set of relationships between agencies, subsidiaries, their parent ministries and central government. These relationships should be adequate to ensure, in the future, a requisite balance between autonomy and responsiveness/control/accountabilitiy.

After this framework is tested against agencies in the Ontario Government the following would be produced:

2) a) A document, in guideline form for use by Ministries (and central government) when establishing a new agency or when evaluating or reconstructing linkages and relationships with existing agencies. These guidelines will specify standardized means for control and direction of agencies and will include recommendations for their application to the range of agency types existing in Ontario.

This document will also provide the basis for revision to the current Management Board Manual of Administration including the scheduling of agencies and the development of a new prescriptive "how to" publication. It will also provide a basis for standardizing and revising reporting relationships between Management Board, Treasury and agencies.

b) An identification of agencies reviewed which require revised relationships and linkages.

3. An identification of candidate agencies which could be
   - integrated
   - consolidated
   - divested

4. An improved data base on individual agencies.

It is not envisaged that these outputs will take the form of a written report. Rather it is believed that a more effective process can be followed in which the project group will provide presentations of its observations, conclusions and recommendations in the above areas to a Senior Steering Committee on a periodic basis. These presentations would be augmented by informal recommendations for the resolution of specific problems identified in individual agencies during the course of the study.

This will form the first phase of the project and will be separate and distinct from a second implementation phase.

Project Organization, Staffing, and Timing

The project will be under the general direction and supervision of a committee composed of the Minister and Deputy Minister of Treasury and Economics, Management Board and Consumer and Commercial Relations. The project will also require substantial involvement of senior executives of specific agencies.

This steering committee would be supported by a technical committee composed of central government staff chaired by a senior external resource person.

The project will be directed and staffed by secondees from the Ontario Public Service and its agencies assisted by the external resource person who would have extensive experience and expertise in the relationships between Parliamentary Governments and their semi-autonomous bodies.

The resource person will also provide a basic detailed conceptualization of a revised relationship framework including proposed specific procedural elements and other mechanisms and provide major input in adapting this conceptualization to the Ontario government environment.

The resource person will also make specific comment and recommendations based upon his or her experience and judgment in the area of divestment and specific problem resolution.

The resource person will not however undertake direction, administration or detailed data gathering duties.

It is envisaged that products (1) and (3) would be produced within six months of commencement of the project and the project completed within one year.

AGENCIES, BOARDS AND COMMISSIONS PROJECT

FIRST REPORT

REVIEW OF ONTARIO'S AGENCIES, BOARDS AND COMMISSIONS

AGENCIES, BOARDS AND COMMISSIONS PROJECT

MINISTRY OF TREASURY AND ECONOMICS

AND

MANAGEMENT BOARD OF CABINET

ONTARIO

FIRST REPORT

JULY 1985

SUBMITTED BY: DON GRACEY
C. G. MANAGEMENT & COMMUNICATIONS INC.

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INTRODUCTION

The use of agencies, boards and commissions in the Government of Ontario has a long history. The first agency created was probably the Industrial Exhibition Association of Toronto (1879) now the CNE Association, followed by others such as the Niagara Parks Commission (1887), the Tamiskaming and Northern Ontario Railway Commission (1902) now the Ontario Northland Transportation Commission, the Ontario Hydro Electric Commission (1906) and the Workmen's Compensation Board (1915).

The United Farmers' government established a number of agencies immediately after the first World War. Later on, the financial collapse of the Depression led to the creation of several new agencies, including the Ontario Municipal Board, the Ontario Securities Commission and the first agricultural marketing boards.

The greatest growth in the number and functions of agencies has occurred since the mid-1950's in response to increasing fiscal and administrative demands and public policy pressures imposed on governments.

Agencies have been created by successive Ontario governments for a host of reasons. The most common include:

- achieving administrative flexibility and adapting organization structures to particular activities;
- creating an "arms length relationship" between the government and the administration of certain activities, thereby insulating them, to a degree, from political control and direction;

- allowing for the administration of functions outside of the normal bureaucratic personnel and financial requirements and procedures;
- to have the legal status of a corporation in order to conduct certain activities, for example, to hold, acquire and dispose of land and other real property;
- the acquisition or incorporation of companies to undertake commercial or quasi-commercial activities for public policy purposes;
- to have public, representational or expert appointees on the managing boards for certain activities; or
- to relieve administrative pressures on the traditional departments or ministries of government.

As part of the Government of Ontario's on-going reviews of all aspects of its internal management, the agencies sector was examined by the Committee on the Organization of Government that reported in 1959, by the McRuer Royal Commission of Inquiry into Civil Rights (1968) that concentrated on those agencies that deal directly with the rights and privileges of private citizens and by the Ontario Committee on Government Productivity that reported in 1974.

The current examination from which this report originates is the latest in this series of reviews. It was announced in the Budget Address in May, 1984 and was initiated several weeks later.

Scope of the Review

The Ontario agency sector now consists of a total of 701 individual organizations that meet the current definition of "agency" in the Manual of Administration, including a total of 28 subsidiaries of Ontario Crown corporations. These organizations account for 4,000 Lieutenant Governor in Council or ministerial appointments to managing boards, employ in excess of 32,000 people and have an array of mandates, structures, powers and methods of creation.

Ontario, unlike several other jurisdictions, maintains a single consolidated list of all boards, commissions, Crown corporations, committees and the like and calls them "agencies". Realistically, therefore, the figure 701 is an exaggeration. (1) The current definition of "agency" encompasses a large number of entities that are simply committees or advisory groups of one sort or another and a large number of organizations to which the government appoints only a minority of the members of the managing boards and which, therefore, are not controlled by the Government of Ontario.

This report deals essentially only with those agencies that are legally-constituted organizations and are effectively controlled by the government. This reduces the scope of the review to some 350 individual

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1. The Schedules to Section 25 of the Manual of Administration list all "agencies". The list, as of April 1, 1985, includes a total of 281 agencies or groups of agencies, plus 24 subsidiaries. If the 18 groups of agencies are broken up into individual organizations, the total of individual organizations plus subsidiaries listed on the Schedules comes to 692. Four subsidiaries and two Crown corporation are not now listed on the Schedules. If they were, the total would be the 701 referred to in the text.

organizations, including subsidiaries. These organizations perform a range of advisory, regulatory, quasi-judicial, administrative, commercial or quasi-commercial functions.

The Need for Adjustments

In response to the demands placed on governments over the past few decades and in order not to over-burden the traditional ministries or departments, most governments have allowed agencies to proliferate at an unprecedented rate. The size, scope and diversity of Ontario's agencies sector is not that remarkable, therefore, when compared to other jurisdictions. What is remarkable, in view of the numbers involved, is that Ontario has largely escaped the scandals and other problems that have beset similar organizations in other governments.

There are indications, however, that a few carefully-selected adjustments to the current management system for Ontario agencies are warranted:

i) The size and diversity of the agencies sector presents governments with a daunting task to define a meaningful, yet comprehensive and immutable administrative framework. Most governments finesse the problem by putting in place a complex of informal agreements, understandings and inter-personal relationships. Over time, these relationships inevitably erode, agency bureaucracies develop that are increasingly separated and immune from Ministers and ministries and agencies come to function in increasing isolation from government, presenting virtually a standing charge on the

Consolidated Revenue Fund. Some of Ontario's agencies have followed this pattern.

ii) These relationships and agreements tend to be government-specific as well. When governments change, unless it super-imposes its own agreements and relationships quickly, the new government runs a real risk of the agency sector continuing to operate as before, but in a way that is tangential to the overall policy direction of the new government.

iii) The high degree of informality underlying Ontario's management system allows considerable flexibility. As the agency sector grows, however, this flexibility leads to anomolies that make it increasingly difficult for the government to exert effective control and direction over the sector as a whole.

iv) There are individual problem areas. Some are sector-wide; some are agency-specific.

In many respects, Ontario finds itself in the same situation confronting the federal government in the mid-1970's. Faced with many of the same kinds of problems that will be reviewed in this report, the federal government decided that major across-the-board reforms were not necessary for Crown corporations. There was no compelling evidence that the government's management system for Crown corporations was beginning to break down. Almost immediately, however, major problems began to occur and the government was confronted with a series of difficult policy, political

and managerial issues that ultimately forced it to undertake major legislative and administrative reforms. They took the form of the omnibus Crown Corporations Bill (C-24) approved by Parliament in June, 1984 and an internal reorganization of some of the central agencies of government.

By taking the same sort of initiatives now, Ontario could pre-empt a similar occurence.

PART I

Ministerial Responsibility

During the review, discussions were held with a number of Ministers, deputy ministers and heads of agencies. There was little consensus as to the nature and degree of Ministers' responsibility for agencies. As a philosophical or conceptual foundation for the recommendations in this report and as a consistent approach for Ministers to deal with their agencies, the following framework of Ministers' and managing boards' respective responsibilities for agencies was defined:

Ministerial Responsibility

Ministers individually should see themselves as responsible for:

a) communicating the framework of government policies within which agencies are expected to operate;

b) exercising, or deciding not to exercise, whatever powers and duties are vested in the Minister by an organization's constituting instrument (statute, order-in-council, regulation), including the exercise or non-exercise of the shareholder's powers for corporations incorporated under companies legislation;

c) taking appropriate corrective action when the affairs of an organization go awry in a material fashion; and

d) reporting to ministerial colleagues and to the Legislature on the affairs of an organization.

Coincident with these individual ministerial responsibilities are important powers exercised by certain Ministers, for example the Treasurer of Ontario as manager of the Consolidated Revenue Fund, that to an extent override the powers and prerogatives of individual Ministers.

Ministers collectively should see themselves as responsible for:

a) scrutinizing and approving the creation of new organizations, their mandates, basic structures and any major reorganizations;

b) devising general government policies for communication to agencies;

c) defining the general relationships that are to exist between agencies on one hand, Ministers, ministries and central ministries (e.g.Treasury and Management Board) on the other; and

d) the composition of managing boards and who or what is to be the appointing authority.

Managing Boards

As a corollary to ministerial responsibility, managing boards should see themselves as responsible for:

a) management or supervision of the affairs of the organizations within their mandates and within whatever government policies are communicated by the Minister;

b) recommending policy to the government or seeking direction from the government on policy in specific instances;

c) exercising whatever powers and duties are vested in the managing board by the constituting instrument, or by the applicable law and articles for any companies act corporation;

d) ensuring that public funds and assets are used with probity, economy and effectiveness and reporting thereon as may be required either by statute or by the Minister;

e) keeping Ministers advised of issues or events that concern, or can reasonably be expected to concern Ministers in the exercise of their responsibilities; and

f) exercising residual powers: powers not explicitly granted either to individual Ministers, the Lieutenant-Governor-in-Council or to the managing board.

PART II

Proliferation

The creation of new agencies in Ontario has been used as a response to a host of organizational, policy and political challenges. Since fiscal year 1980-81 a total of 72 new agencies (using the Manual of Administration's definition) has been created; an average of 1.2 every month. Although the creation of these agencies, or the authority to create them has been approved by Cabinet, many of them have not been reviewed and approved by Management Board or its Secretariat prior to creation. A large group of them have been created or acquired on tenuous statutory authority.

Subsidiaries of Crown corporations present special issues. In the period fiscal year 1980-81 to 1983-84, a total of 24 subsidiaries has been established or acquired; and average of 1 every two months. There are a host of valid business and other reasons for creating subsidiaries and the practice *per se* should not be discouraged. On the other hand subsidiaries can be used to remove the activities of Crown corporations from direct scrutiny by and accountability to the government and the Legislature. Furthermore, subsidiaries are immune from the purview of the Provincial Auditor under the *Audit Act*. Although the Provincial Auditor has not been denied access to information, problems could occur in the future. Finally, subsidiaries created pursuant to companies legislation can, and often do have powers greater than their parents created by a special act of the Legislature.

Proliferation of agencies detracts from the government's fiscal and policy flexibility and, if allowed to continue unabated will, at some point, imperil the efficacy of the government's management system.

Recommendations

It is proposed that:

1. Prior to review by Cabinet, Management Board should be required to review and make recommendations on the creation or acquisition of any new agency regardless of the method of creation, including subsidiaries of Crown corporations. Proponents of new agencies should be required to justify the need for creating a new organization as well as the organization's proposed mandate, structure, method of funding and relationship to the Ministry and central Ministries.
2. In creating or acquiring a new agency, the proponent should be able to point to clear statutory authority for doing so.
3. In creating or acquiring subsidiaries or affiliates:
   - the parent corporation should be able to point to clear legal power to incorporate or acquire subsidiaries;
   - the mandate and powers of the subsidiary or affiliate should not be greater than those of the parent;
   - the parent must prepare financial statements consolidating any subsidiary; and
   - the Audit Act should be revised to bring subsidiaries within the ambit of subsection 1(e) in the same way as "Crown controlled" parent corporations.

In the final analysis, however, controlling proliferation is an exercise in political will. It requires a political recognition that

increased proliferation presents or could present significant problems; and a political commitment to arrest unnecessary proliferation. In the absence of political will - which characterized the federal government's response to the problem in 1977 - administrative controls will never be effective.

Use of the Corporate Form

There are 303 Ontario agencies in operation that have corporate form; organizations that in most other jurisdictions would be called Crown corporations. 258 have been incorporated by Ontario special act; 2 by federal special act, 37 under federal or Ontario companies legislation, 5 pursuant to Ontario statute and one by a joint resolution of the U.S. Congress.

In a number of cases, corporate form appears to have been granted unnecessarily. In other cases, corporate form may have been justified initially, but is is no longer required. Some organizations, such as the District Health Councils, should probably have corporate status in order effectively to perform their functions, but do not.

Recommendations

It is proposed that:

1. More care be taken in the use of the corporate form to create new agencies. In particular, corporate form should be used only when the agency is undertaking commercial or quasi-commercial

activities or when the agency's mandate requires that it have some or all of the legal powers of a corporation.

2. During any sunset review process, the need for corporate form in individual cases should be re-assessed and, if appropriate, corporate form withdrawn. Consideration should be given to continuing some organizations, such as the 26 District Health Councils, as corporations pursuant to appropriate statutory authority.

Ministerial Policy Control: The Directive Power

There are now 130 Ontario agencies for which either the Lieutenant-Governor-in-Council or the responsible Minister has the statutory power to issue legally-binding directives. In addition, the Minister as sole shareholder in trust for Her Majesty will often have an analogous power (the shareholders agreement) with respect to agencies incorporated under companies legislation. The power has been rarely, if ever, used, however.

The directive power is the best means devised thus far for Ministers to communicate government policy to agencies and take corrective action when their affairs go awry, in a way that is both binding on the agencies and open to scrutiny by the public and the Legislature. Some Ministers apparently believe that their position as trustee shareholder or responsible Minister automatically gives them the power to direct their agencies. This is not necessarily so. A 1978 opinion by the then Attorney General stated that, unless the statute provides a directive power for

special act agencies, it is probably ultra vires for the Minister or Lieutenant-Governor-in-Council to issue one and it would be a breach of a board's fiduciary duty for it to undertake to follow government directives.

Recommendations

It is proposed that a legally-binding directive power be granted to Ministers with respect to all agencies controlled by the Ontario government and to all incorporated agencies of which the government is the sole shareholder or owner.

Because the directive power has potential for abuse, it should be used only when other mechanisms of control and direction are inappropriate or have proved to be ineffective. In addition, the following conditions or safeguards should apply:

a) Any directive should be approved by Cabinet on the recommendation of the responsible Minister and take the form of an order from the Lieutenant-Governor-in-Council.

b) Any directive should be tabled in the Legislature whithin 15 days of issuance, or if the Legislature is not sitting, within 15 days after the beginning of the next Session and be reproduced in the relevant organization's annual report.

[The above requirements would focus responsibility and accountability on Ministers and help to safeguard against abuse through public disclosure.]

c) A directive should not be issued to:

- any regulatory body or quasi-judicial tribunal on any individual case before it or likely to come before it, or on the granting of any specific or individual licence, approval, or certificate;
- any lending or granting institution with respect to any specific or individual loan, grant or subvention;
- any advisory body with respect to the conclusions or recommendations it makes, or may make to the government;
- any professional self-governing organization on any particular or individual disciplinary case before it or likely to come before it.

d) Directives should not normally be issued without prior consultation with the relevant managing board as to the likely costs, effects, implications and feasibility.

e) Provision should be made for public hearings on certain directives (as identified by the government) to regulatory commissions.

f) A corporation expected to operate on a commercial or financially self-sustaining basis should have the right to seek compensation from the government for any verifiable losses or incremental costs sustained as a result of implementing a directive for the pursuit of non-commercial public policy goals. If the government agrees to compensation, it should normally be paid out of funds appropriated by the Legislature for the purpose.

g) A directive need not be tabled in the Legislature or published in an annual report if the Minister certifies that its publication would likely harm necessary commercial

confidentiality. Once the directive has been implemented and the commercial confidentiality constraint is no longer applicable, the directive should be tabled and published forthwith.

h) A directive cannot override any statute applicable to the organization, or its constituting instrument and cannot relieve the organization from the need to obtain any regulatory approvals or immunize the organization from any applicable law or regulation that would otherwise apply.

A directive applying to regulatory and quasi-judicial tribunals is probably excessive or heavy handed in those instances where the government now has the power to approve, vary or rescind the decisions. In effect, the conjunction of such powers with the directive power would give the government both prior and post controls, calling into question the real or perceived independence of the organization and the purpose in having such an organization at all.

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i) In those instances where the government must approve or may vary or rescind the decision of a regulatory body or quasi-judicial tribunal, the directive power should be foregone; or the directive power implemented and the power to approve, vary or rescind individual decisions should be foregone.

Mandates and Control

As occurs in most other jurisdictions, the mandates of Ontario agencies, as expressed in their constituting instruments, are almost always general and broad.

From a purist's perspective, broad mandates are a problem: They give the unelected officials who run the agencies wide discretion to define direction and priorities. They make objective performance measurement more difficult. That, in turn, makes effective accountability to Ministers and the Legislature more difficult. They also encourage "mandate drift" whereby over time agencies assume functions that have little or nothing to do with the original purposes for which they were created.

From a practical perspective, however, governments and Legislatures condone broad mandates in order to accord agencies maximum flexibility to respond to changing circumstances and requirements. Broad mandates also allow the experts appointed to manage the agencies the latitude necessary to pursue objectives and resolve problems.

It is an easy point to score in reviews such as this to criticize broad mandates and propose that they be clarified, updated and made more precise. To the extent that mandate clarification is feasible, it should be done. In the vast majority of cases, however, mandate clarification will not be feasible, or will be unproductive in a cost-benefit sense.

This phenomenon simply places an additional burden on the other mechanisms of control, direction and accountability to ensure that agencies' activities are co-ordinated with government policies and priorities and

that realistic and quantifiable performance measures and objectives are defined and agreed upon. One such mechanism, the directive power, has already been discussed. There are several others.

Memoranda of Understanding

Particularly from the perspective of Management Board, Memoranda of Understanding provide, in theory, the principal means of defining for each agency a general framework of direction, control and accountability. Memoranda are currently required by the Manual of Administration for all operational and regulatory agencies now listed in Schedule I to the Manual and for any regulatory agency where the Minister considers it desirable. Memoranda are required for all agencies in Schedule II; for agencies in Schedule III where the Minister considers it desirable and for agencies in Schedule IV where the Minister and the managing board agree that they are desirable. Memoranda are prepared by the agency often in close consultation with the Ministry. They are approved by the managing board, then the Minister and then Management Board, after which they are tabled in the Legislature.

Memoranda as now constituted suffer from some major limitations:

- They are, according to the Manual of Administration, supposed to clarify "objectives, priorities and performance expectations". With a few notable exceptions, such as the Ontario Northland Transportation Commission, most do not.
- Memoranda are not supposed to be legal in style or format. Yet increasingly they are being prepared by legal staff and are adopting a formal and legalistic style and approach that detracts

from simplicity, clarity and flexibility.

- The preparation of Memoranda and their revision, even in the face of major anachronisms, are often slow and cumbersome. There is no mechanism outside of a change in Minister or agency chairman to trigger a review or revision.
- Memoranda have at least questionable force in law and do not override legislation in the event of any conflict or inconsistency.

Many of the limitations spring from the current requirement that all Memoranda of Understanding be tabled in the Legislature once approved by Management Board. This requirement gives legitimate cause for Ministers and agency management to be cautious and conservative. It also very much limits the candour and specificity of Crown corporations' Memoranda as they strive to protect commercial confidentiality.

Since their introduction, therefore, Memoranda of Understanding have rarely met original expectations as instruments to clarify or set objectives and priorities. Although there is a place for Memoranda to play in the scheme of things, a more effective mechanism will be recommended.

Corporate Strategic Plans

Several agencies, mostly the major Crown corporations such as the Urban Transportation Development Corporation, annually prepare long-term "corporate", "business" or "strategic" plans for review and approval by the boards. The role that individual Ministers and ministries play in the preparation and approval of these plans varies from corporation to corporation. Only rarely, however, do such plans come to the government,

particularly to the central ministries for review or approval, except when government funding is required. In one or two cases, the plans are not even made available to the central ministries.

Such plans are potentially invaluable in reaching agreement between the government and individual agencies on mandates, objectives and performance criteria and to provide a basis upon which an agency and its management's performance can be judged. In addition, corporate plans allow the government to do its long-term fiscal planning more effectively and to monitor and control long-term commitments and liabilities. They also perform the incidental, but important benefit of imposing a planning regimen on those agencies that do not plan or do not plan effectively.

Recommendations

It is proposed that:

1. **Memoranda of Understanding should continue to be prepared, reviewed and approved as at present and tabled in the Legislature. Memoranda should relate, however, only to "linkage" issues such as the respective roles and powers of Ministers, the managing board and the central Ministries. They would be required only when the Minister, the agency or Management Board found the definition of linkages in the constituting instrument to be deficient.**
2. **Each Crown corporation and each organization to be listed in proposed Category B (a total of 56 agencies, of which only 24 are major Crown corporations) should be required to prepare three to five year rolling corporate strategic plans for approval by**

the managing boards and subsequently for approval by the responsible Minister. Major capital and operating expenditures and commitments proposed by Category B agencies should also be reviewed and approved by Treasury/Management Board. Major capital expenditures and commitments, including long-term borrowings, lease arrangements and guarantees proposed by Crown corporations should be reviewed and approved by Treasury/Management Board.

Once approved by the Minister and Treasury/Management Board as required, the plan should constitute the authority for each organization to enter into the expenditures and commitments contemplated in the plan.

Managing Boards, Chairmen and Chief Executive Officers

Managing Boards

As occurs in many other jurisdictions, managing boards of government agencies are often a weak link in the direction, control and accountability chain. One of the main problems is that the role they are expected to play is seldom made clear. (2) Are they to follow private sector standards and "act in the best interests" of their respective organizations alone? Or are they to slavishly follow the government's wishes? Obviously, the role is somewhere between these extremes. But where is the trade-off point between the government's wishes and the best interests of the organization and who makes those trade-offs?

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2. The process by which boards are appointed or elected in Ontario was not part of the terms of reference of this study.

Boards are seldom informed by the government as to what the government's expectations, policies and priorities are. This leaves many boards in a vacuum that could cause a lack of co-ordination and consistency in overall government policy. At worst, as has happened at the federal level, it could result in agencies pursuing a direction in conflict with that of the government.

Recommendations

It is proposed that:

1. The role of managing boards of agencies should be to pursue the best interests of their respective organizations, within whatever policy framework is formally communicated to them by the government.
2. Immediately after an appointment to a managing board, the Minister's office should provide to each new board member a briefing covering:
   - the government's policies and priorities applying to the agency, the government's fiscal and other constraints and its expectations of the agency;
   - the duties, responsibilities and liabilities of members, specific to each organization;
   - the government's expectations of board members;
   - the mandate of the organization, the issues and any problems confronting it from the government's perspective;
   - the relationship between the organization, the Ministry and central Ministries; and
   - the government's policy with respect to conflicts of interest, remuneration, etc.

[The uniform sections of these briefing books should be prepared by Management Board and Treasury and adapted as necessary by the individual Ministries. These briefings should be perceived as supplementary to whatever briefings are provided to new board members by the agencies themselves. The two briefings should obviously be consistent and co-ordinated, however.]

3. Annually or as required, the relevant branch or division of the Ministry should hold a briefing session for managing boards consisting of a discussion on the government's fiscal constraints and objectives, policies and policy priorities.
4. Individuals should be designated in each Ministry or in the Minister's office for members of managing boards to contact should they have questions about government policies, expectations and the like.

Public Servants on Boards

Sixty-seven agencies have one or more public servants on their managing boards, appointed or elected by a Minister or the Lieutenant-Governor-in-Council or serving ex officio.

There is no doubt that public servants can be valuable additions to boards. On the other hand, the practice raises several issues and problems. For example:

- To whom does the public servant owe his duty as a board member: to the agency, or to his Ministry and the government?
- How do public servants resolve an inherent conflict when they are asked to advise their Minister on matters relating to the agency on whose board they serve?

- Is a public servant a watchdog on the affairs of the agency on behalf of the government, or a communicator of the government's policy? If so, what is the role of the chairman and the chief executive officer? If the public servant is a communicator of government policy, how do the other members of the managing board distinguish between the government's policy and the public servant's personal inclinations?
- May the public servant share insider information that he has by virtue of his public service office with his colleagues on the managing board when such information is germane to a board's deliberations?

In the absence of clear direction from the government on the role of public servants on managing boards, there are more reasons arguing against such appointments than for them.

Recommendations

It is proposed that public servants should not be appointed to the managing boards of agencies. Exceptions to this rule ought to be considered only in the following circumstances:

a) where the agency is essentially a "shell" for legal or some other practical purpose and its principal function is to administer a Ministry program;

b) where the agency has been set up essentially as an inter-departmental committee to administer functions on behalf of two or more Ministries;

c) where a Ministry is contributing substantial funding on an ongoing basis to an organization, the majority of whose governing members are not government appointees; or

d) where an agency has encountered significant financial or policy problems and a direct link with the Ministry or government is required on a short-term basis to set it right.

As a general rule, policy guidance and other types of direction from the government should be communicated to agencies through the chairmen and through other mechanisms such as the directive power or strategic plans and not through public servants on the managing boards. In addition, a board currently consisting of all or a majority of public servants should be taken as an indication that the agency's functions could be consolidated with the relevant Ministry.

Ministers on Managing Boards

Unlike several other jurisdictions such as Saskatchewan, Ontario has not traditionally appointed serving Ministers to managing boards of agencies. Until August, 1984 only one agency (the Canadian National Exhibition Association) had Ontario Ministers on its board. Since then two new corporations, the Stadium Corporation of Ontario Limited and the Ontario Centre for the Prevention of Child Abuse, have had one or more Ministers appointed to their boards.

There is no doubt that Ministers serving on boards greatly enhance

agencies' control and direction by, and accountability to the government. On the other hand, Ministers on boards raise the same issues and problems as public servants on boards, only more emphatically. In addition, it becomes difficult for a Minister to claim that an agency on whose board he serves is really at arm's length from him and is acting independently.

Recommendations

It is proposed that Ministers not be appointed to governing boards of "controlled" agencies and should be appointed to boards of entities of which the Ontario government is not the sole owner or shareholder only when inter-governmental relations or matters of high policy are involved.

Chairmen and Chief Executive Officers

In private sector theory and certainly with respect to widely-held public companies, one of the more important powers of boards of directors is to choose the chief executive officer, monitor, reward or censure his performance and generally to oversee management succession. In private sector companies with a sole or controlling shareholder, boards are likely to defer to that shareholder's wishes in this regard. Since the government is the sole or controlling shareholder of Ontario agencies, it follows that it would usually assume the prerogative of appointing chief executive officers as well as chairmen.

If boards of agencies are to fulfill their potential, however, the government should consider allowing boards to play a greater role in the

appointment of their chief executive officers. Chairmen, on the other hand, can be an important counter balance to a chief executive officer and should be the prime means of communication between the government and the agency. As such, chairmen should continue to be appointed by the government.

Recommendations

It is proposed that:

1. Chairmen of at least the major Crown corporations should be appointed as the "outward looking" heads of agencies, responsible for agency-government relations and communications. As such, chairmen should be appointed by the government.
2. Chief executive officers of at least the major Crown corporations should be appointed as the "inward looking" heads of agencies, primarily responsible for the management of internal affairs. As such, chief executive officers should be appointed by the government on the boards' nomination.
3. The majority of agencies are too small to warrant appointment of two separate individuals as chairman and chief executive officer. In such cases, the individual appointed to both posts should be appointed by the government after effective consultation with the boards.

Remuneration of Chief Executive Officers

The current Ontario system allows considerable latitude to boards of directors of many commercial and quasi-commercial corporations and

administrative bodies to set the remuneration levels of the chief executive officers, other than of those appointed formally by the Lieutenant-Governor-in-Council. This has been justified as necessary to attract qualified personnel, to give the boards effective control over the chief executive officers and to reward performance.

In theory, this approach makes good sense. In practice, however, the government will usually be held accountable for chief executive officers' remuneration levels regardless of how those levels have been set. There have also been some recent indications that some changes in the policy might be considered.

A way should be found to combine adequate flexibility and responsibility for managing boards, while allowing the government to protect its interests.

Recommendations

It is proposed that Management Board set broad salary ranges for the major administrative bodies and Crown corporations either individually or by groups within which boards would fix the remuneration level of each chief executive officer. The levels should be regularly reviewed and updated by Management Board.

Sunset Reviews

Since January, 1981, and with process changes made in October 1982, a

"sunset review" has been required by the Manual of Administration for all advisory agencies and all operational and regulatory agencies established after March 12, 1980. The onus is placed on the individual Ministry and agency to review each agency. The Minister's recommendations are reviewed by the appropriate Policy Field, Management Board and ultimately by Cabinet.

The purpose of the review is to weed out duplication and overlaps in agencies' mandates, dispose of agencies that have fulfilled their purpose and so on. It is, therefore, unfair to judge the success of the review process simply by the number of agencies that have been closed down as a result. In any event, since 1981 roughly 20% of the organizations reviewed have either been terminated, or consolidated with existing agencies.

The current sunset review process suffers from several limitations however, that will increasingly detract from its effectiveness.

- It has been an ineffective check against proliferation. During the period since 1981 there has been a net gain of 56 new agencies.
- The process relies heavily on the organizations themselves and their Ministers. Additional outside and objective analysis would contribute to effectiveness.
- There is some evidence that the sunset process is becoming simply another routine administrative requirement that the agencies suffer through.

In addition, the Standing Committee on Procedural Affairs was created by the Legislature in June 1977. It was given the power to review the

operations of all agencies to reduce redundancy or overlap in mandates. The Committee has tabled six reports resulting from its review of 29 organizations (mainly regulatory and operating) and recommended that two agencies be terminated. One has actually been terminated to date.

If the assessment made is correct that the current sunset process will become increasingly ineffective, there are two alternatives available to the government: Either toughen-up the sunset process by putting automatic termination dates in the constituting instruments so that the agencies would have to have specific Legislature or government approval to continue; or find another mechanism which more efficiently and effectively achieves the same goals. The first alternative is not recommended because it takes considerable flexibility away from the government and could induce a degree of paralysis in the agencies.

Recommendations

It is proposed that:

1. When organizations with a clearly-defined short-term mandate are created, their constituting instrument should include a termination date as a matter of course.
2. It will be recommended in this report that most of the advisory bodies to which the sunset review now applies be removed from the proposed new Categories and left to each Ministry's management. It follows, therefore, that there need be no centrally-imposed and co-ordinated sunset reviews for such organizations.

3. A mandate review of each "regulatory", "administrative", "quasi-judicial" and "advisory" body to be listed in proposed Category A should be mounted every three years by a task force chaired by Management Board Secretariat and consisting of representatives of the agency and the appropriate Ministry.

4. The corporate strategic planning exercise should become the first step of what would amount to an annual sunset review for every Crown corporation and for organizations listed in proposed Category B. The strategic plan approvals process should annually clarify mandates and specify performance targets. It should also indicate whether a major mandate or structural revision, termination, amalgamation with an existing organization or privatization should be considered.

5. Management Board should have the power to initiate a special sunset review of any agency. Once a review is begun, it should be undertaken by a task force consisting of the appropriate Ministry and the organization. The task force should be chaired by Management Board Secretariat and staff support supplied by Management Board. The task force would prepare a report with recommendations for review by Management Board and for final decision by Cabinet.

PART III

The Manual of Administration

Ontario is one of the very few jurisdictions that lists, in a public form, all of the extra-departmental agencies of government and tries to establish an administrative framework for all of them.

Given the enormity of this task, it should come as no surprise that experience over the past decade has exposed some limitations and defects in the Manual and the Schedules:

- The narrative sections of the Manual are very difficult for non-experts to comprehend.
- The administrative requirements have no legal force per se and in the event of conflict or inconsistency are automatically over-ridden by the provisions of any statute.
- The administrative requirements are quite inflexible, making it difficult to adapt them to a wide range of circumstances and requirements.
- The Schedules, on one hand, are excessively ambitious covering a host of committees, advisory bodies created by Ministries or agencies and organizations not controlled by the government. On the other hand, the current definition of "agency" in the Manual does not cover wholly-owned subsidiaries of Crown corporations or corporations incorporated under companies legislation that have been acquired by the government.
- There are no criteria for moving an agency from Schedule to

Schedule. Some agencies claim, for example, that an agency that has encountered major financial or other problems suffers no real censure as a consequence. Agencies should be able to move more readily from Schedule to Schedule: Closer in to government for those that have demonstrated unacceptable financial, management or planning practices; further out for those that have demonstrated an acceptable degree of competence to run their own affairs and whose mandate justifies increased independence.

Recommendations

It is proposed that:

1. An organization be listed on the Schedules only if it is effectively controlled by the government, either by the government appointing a majority of the members of the managing board or by holding, directly or indirectly, 50% or more of the issued and outstanding shares of any corporation. (This would result in a net decrease of 184 in the number of organizations to be listed.)
2. The organizations excluded by the "control" criterion would be treated as transfer funding agencies. Terms and conditions could be attached by the government to its funding commitments and the use of public money should be subject to effective audit by internal Ministry auditors, the Provincial Auditor or by private accounting firms.

3. As a general rule, in those instances where the Province is providing 50% or more of the funding for a transfer agency on an on-going basis, the government should give serious consideration to appointing 50% or more of the managing boards. In some cases, however, such as universities, wider public policy considerations will probably lead to a confirmation of the status quo.

4. Committees and advisory bodies that are not legally constituted organizations should also be deleted from the new Schedules. (This would result in a decrease of 152 organizations.)

5. New Category A should include the residuum of advisory organizations and all regulatory, quasi-judicial and closely-held administrative organizations.

6. New Category B should include all quasi-independent administrative oganizations.

7. A new Schedule and a new section of the Manual should be devised for those 24 Crown corporations whose size, structure and modus operandi make a compelling argument for separate treatment.

8. Organizations should be listed in a Schedule by Management Board on the recommendation of the Minister and moved from Schedule to Schedule by the same mechanism. When circumstances warrant, administrative organizations should be allowed to move between Category A and B and between Category B and the Crown corporation category.

9. Section 25 of the Manual and the proposed new section applying to Crown corporations should be written in a style that is clear, concise and readily understandable to the layman.

10. Serious consideration should be given to casting the important parts of the new Section 25 and the proposed new section applying to Crown corporations as regulations under subsection 6(d) of the Management Board of Cabinet Act to remove any doubt about their application.

The proposed new Categories, the criteria for inclusion in each and the administrative requirements applying to each are set out in Annex A to this report.

Anomolies

Strict application of the proposed control criterion will result in several anomolies. Anomolies should be addressed and rectified as soon as possible in order to maintain the consistency and integrity of the new Schedules.

Cultural Agencies

To three of the nine cultural agencies, the Government of Ontario appoints less than a majority of the managing boards (Art Gallery of Ontario, Royal Botanical Gardens and CJRT-FM). In the case of CJRT-FM, the Ontario government provides roughly 60% of the funding; in the case of the Royal Botanical Gardens 47% and 34% in the case of the Art Gallery of Ontario. All cultural agencies are listed in the current Schedules as agencies.

It is proposed that the cultural agencies be granted increased flexibility to encourage them to raise more private sector funding. Consideration should be given, for example, to disposing of lapsing funds and the requirement to deposit all revenues to the CRF, where these requirements persist. Those cultural agencies that are less than 50% funded by the government (Royal Botanical Gardens and Art Gallery of Ontario) should cease to be Ontario agencies as long as they maintain such a funding ratio, one year taken with another. The remaining cultural agencies, including CJRT-FM, should continue as agencies as long as 50% or more of their funding comes from the Ontario Government.

Professional Self-Governing Organizations

The current Schedules to the Manual list 28 agencies that could be characterized as "professional self-governing", such as the Board of Examiners of Operating Engineers and the Board of Opthalmic Dispensers. They are found largely in the portfolios of Health and the Attorney General.

Aside from the differences in their clienteles, all these organizations are basically the same. They are all self-funding and the government exerts effective control over them by approving their regulations.

Yet for 14 of the organizations the government appoints the entire managing boards; for 14 the government appoints less than 50% of the

managing boards. All 28 organizations are listed in the current Schedules as agencies.

Since they are self-funding and the government exerts control over the organizations through regulations, it is proposed that none of the self-governing organizations need be listed in the new Schedules as agencies and the government give consideration to appointing less than a majority of the boards.

Local and Regional Boards of Commissions of Police

Although their mandates are basically identical under each relevant Municipal Act, the government appoints a majority of the managing boards of 52 local and regional boards of commissions of police and less than a majority in 22 cases. All 74 organizations are listed in the current Schedules as agencies.

Given the municipal nature of the Commissions and their mandates, it is proposed that none of them be listed as agencies under the new Schedules and the government give consideration to appointing less than a majority of the boards.

Local Housing Authorities (LHA's)

There are currently a total of 58 Local Housing Authorities listed on the Schedules. Although the Lieutenant-Governor-in-Council is nominally

the appointing authority for all the managing boards, more than half of the appointments are on the nomination of the federal government and the regional or local governments. In essence, the LHA's administer CMHC/Ontario Housing Corporation facilities and projects under rules and regulations promulgated by the Ontario Housing Corporation. Their annual operating deficits are funded equally by Ontario and the federal government.

Given that the facilities administered by the Local Housing Authorities are effectively controlled by the Ontario Housing Corporation (OHC) and the policies under which they operate are set by the Ministry of Municipal Affairs and communicated through OHC, it is proposed that for administrative purposes all the Housing Authorities should be treated as subsidiaries of the OHC.

If all of these recommendations on the anomolies are accepted, the new Schedules will consist of a total of 239 individual organizations: 132 regulatory, advisory, quasi-judicial and administrative in Category A, 56 administrative in Category B and 24 Crown corporations and their 27 subsidiaries -- a more manageable group than the current 701 individual organizations.

PART IV

Disclosure of Remuneration of Directors and Senior Officers of Agencies

Interest in the remuneration of agencies' directors and officers (which is always high) has been increased by the federal government's disclosure last year of salary ranges for the heads of all Crown corporations and, in Ontario, by Opposition requests last October that the "remuneration, fringe benefits and perquisites" of heads of Crown corporations be disclosed.

Under Ontario's current disclosure policy, some salaries are disclosed; others are not. What drives the current disclosure practice is how individuals are paid (i.e. through central government payroll system IPPEB's or otherwise), not by the type or nature of the organization or the method of appointment.

In essence, directors and officers of agencies whose salary does not exceed $40,000 per year and who are paid through payroll system, have their salaries disclosed. The remainder is not disclosed.

A broader disclosure policy has several advantages. They include demonstrating to the government, the Legislature and the public the "cost of management" in individual agencies, acting as a check on managing boards and bringing government into line with private sector disclosure practices.

On the other hand, increased disclosure has significant personal privacy implications and may lead to "raiding" of senior personnel from agencies by private sector firms or other governments. Further, disclosure

has proved to be an ineffective method of applying restraint on remuneration levels.

Recommendations

At a minimum, there is substantial merit in the Ontario government following as closely as possible the requirements it imposes on publicly-traded corporations under securities regulations. In line with those requirements and to avoid violations of personal privacy, disclosure should be on a group (i.e. cost of management) rather than on an individual basis. Based on private sector practice and the highest standard in other Canadian jurisdictions, it is proposed that the annual reports of each agency listed on the new Categories to the Manual of Administration contain the following:

i) an up-to-date list of the directors and executive officers of the organization;

ii) disclosure of the aggregate remuneration paid in the year to the members of the managing board (full and part-time) and the remuneration (per diems, fees and retainers, if any) paid to members as a group; and

iii) in aggregate form (i.e. for the group as a whole and not on an individual basis) the total remuneration including salary, bonuses and any form of cash benefit provided to executive officers.

In addition, Ministers may wish to require that:

iv) the salaries of each individual elected or appointed on a full-time basis to an agency by the Lieutenant-Governor-in-Council or by a Minister should be positioned or identified within a range (e. g. beginning at $30,000-$40,000 and increasing at $10,000 increments) and the ranges published annually through the Public Accounts.

Appropriate legislation would have to be prepared before this policy could be enforced.

PART V

Audit and Accounting

Over the years the Provincial Auditor has made a range of specific observations relating to individual agencies. The lack of any across-the-board problems or issues identified by the Provincial Auditor suggests that no major reforms are required.

From this review, there are two adjustments that are worthy of consideration by the government.

Fixed Assets and Depreciation

Most Ontario Crown corporations and agencies to be listed in Category B follow business style accounting required by generally accepted accounting principles (gaap) as promulgated by the Canadian Institute of Chartered Accountants (CICA).

Within generally accepted accounting principles, many agencies treat the acquisition of fixed assets as any other type of current year expense or disbursement by charging the acquisition to current operations in the year in which it occurred. The value of the asset, if carried at all in the financial statements, is carried at a nominal value of one dollar. Depreciation of the fixed assets is then rarely accounted for in the financial statements or provided for by the organizations.

The immediate expense approach is the one characteristically followed by governments because of the way in which agencies are funded. It does, however, presents some problems to the government, the Legislature

and the organizations themselves. The essential issue is disclosure: This approach is not designed to fully or adequately set out the financial position of the organizations at any particular point in time. It also can result in major fluctuations in financing requirements when fixed assets must be replaced. One agency, for example, has used the immediate expense approach for its roof. The depreciation of the roof is not accounted for in its financial statements and no depreciation account has been set up. The roof is now in need of replacement costing several millions of dollars. The organization does not have such funds available and will have to approach the government for assistance. The accounting method used has given neither the government nor the agency adequate warning of the requirement.

In sum, the immediate expense approach to fixed assets does not enhance agencies' financial disclosure and detracts from effective long-term financial planning by both the agencies and the government.

A CICA Research Study rejects the immediate expense method and proposes that all material fixed assets should be capitalized and depreciated over the useful life of the asset. (4) If accepted by the CICA, this approach will be required for private sector not-for-profit organizations by generally accepted accounting principles within the next year or so.

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4. Financial Reporting for Non-Profit Organizations, Canadian Institute of Chartered Accountants, Toronto, 1984, Chapter 12.

The Royal Commission on Financial Management and Accountabiliity was critical of the immediate expense approach and proposed that all fixed assets be capitalized and depreciated to achieve more adequate disclosure. At the federal level, all Crown corporations, including Schedule B (departmental) corporations that are inside the government accounting entity and some revolving funds within departments follow the capitalization and depreciation approach for fixed assets.

It is proposed that agencies to be listed in proposed Category B and all Crown corporations follow the capitalization and depreciation approach for all fixed assets as would any private sector commercial organization.

At a minimum, these agencies should be required to account for the depreciation of fixed assets and forecast the need for capital replacement in their annual strategic plans.

Audit Committees

Audit Committees can perform a very valuable function as both a link and a buffer between the external auditor and managing boards. Their existence is also a visible illustration that managing boards are applying "diligence and skill" in their deliberations. Furthermore, audit committees can play an important role in improving the quality of financial reporting by agencies.

For these reasons, audit committees are required by business companies legislation in most jurisdictions for companies offering shares or debt

instruments to the public, including by the Business Corporations Act (Ontario) and the Canada Business Corporations Act.

Ontario's Crown corporations are immune from these general statutory requirements. Accordingly, about one-third of the Crown corporations and agencies to be listed in Category B do not have formally constituted audit committees.

· It is proposed that all agencies to be listed in Category B and the proposed Crown corporations category should be required to have audit committees as if section 157 of the Business Corporations Act (Ontario) applied.

PART VI

Central Co-ordination

In order to operate more effectively the existing mechanisms of control, direction and accountability with respect to agencies and to perform the new functions proposed in this report, a strong central co-ordinating body is essential.

There are several options for its location:

1. Enhanced Role of the Office of the Premier and Cabinet Office: The Premier's Office is already responsible for co-ordinating most of the appointments to agencies and up to the present, has been the fulcrum around which the informal understandings, agreements and inter-personal relationships revolve. A logical extension might be to house there as well whatever centralized management system is required for the agencies sector. If this option were accepted, it would certainly maximize policy co-ordination and the visibility and credibility of the management function. It would, however, entail a major change in the role and function of the Premier's and the Cabinet Office. Its acceptance would, therefore, depend completely on the Premier's management style and philosophy.

2. Enhanced Role for Management Board: If Management Board is to continue to perform the burden of centralized control, direction and accountability for the agencies sector, there will have to be a significant upgrading in the level of resources in the Secretariat, both in terms of numbers and expertise.

3. A Joint Management Board Treasury Unit: Following the recently established federal model, another option would be to bring the relevant Treasury and Management Board staff together as one co-ordinating organization for the agencies sector. By using Treasury's existing powers and resources, this would very much enhance the credibility of the function and would allow for a critical mass of expertise and personnel resources to be accumulated efficiently and quickly.

Another alternative, of course, is increased decentralization: allowing individual Ministers and ministries to manage their respective agencies subject to some general standards, but largely as they see fit. This alternative is not recommended for it would almost certainly allow for increased uncontrolled proliferation of agencies. This alternative, furthermore, does not recognize that many agencies' mandates involve several policy sectors and raise financial and other issues that demand some centralized monitoring, co-ordination and control.

Recommendations

1. **It is proposed that Management Board's role in the control, direction and accountability of agencies be considerably enhanced, with the consonant enhancement of internal Secretariat capabilities.**
2. **In particular, it is proposed that Management Board, advised and assisted by the Secretariat, should perform the following generic functions and activities:**

i) Advising on the creation of new organizations, by whatever means (including subsidiaries and affiliates) and on any major restructuring of an organization including a proposal to re-schedule it in the Manual;

ii) Prior consultation with Legislative Counsel and prior review of draft legislation submitted for review to the Cabinet Legislation Committee that creates or could be used to create new agencies;

iii) Advising Ministers, task forces, commissions, etc. in the machinery of government alternatives and implications when they are recommending functions to be undertaken by new or existing agencies;

iv) Reviewing and approving corporate plans (with Treasury);

v) Advising the Treasury Office on any guarantees, long-term borrowings, major leases and mortgages, etc. proposed by Crown corporations and agencies;

vi) Reviewing and proposing any changes to general policy (i.e. the Manual) relating to Crown corporations and agencies;

vii) Advising Management Board on the ranges of remuneration paid to senior officers and members of managing boards of Crown corporations and agencies;

viii) Co-ordinating any sunset reviews and overseeing any windups, reorganizations, amalgamations or privatizations that result;

ix) Preparation of the common sections of briefing books prepared by ministries for managing boards;

x) Collecting and maintaining an up-to-date data-base of information with centralized access on all of the relevant agencies and Crown corporations.

In the 1978 Budget Statement, an initiative was announced to obtain financial information from all Crown corporations in order to keep Ministers, particularly the Treasurer, abreast of developments. The information was also to have been summarized in the Ontario Finances. Over the past few years the process has become increasingly internalized and informal. The information obtained varies considerably from corporation to corporation. No summary information is published.

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3. It is proposed that every parent organization listed in to Category B or in the new Crown corporations category submit to Management Board and Treasury for information purposes only, (unaudited) quarterly or interim financial statements or variance reports from approved corporate plans and budgets.

APPENDIX A

PART A

Criteria For Each Type

The original mandates of all the organizations encompassed by the new definition of control proposed in the report were carefully examined. It was discovered that, with relatively few exceptions, all the organizations fell neatly into six types:

1. Advisory: An organization that has no decision-making authority per se in its own right; and conducts reviews, studies and investigations for the purposes of reporting to a Minister or to the government generally (perhaps, but not necessarily, with recommendations), after which the Minister or the government exercises discretion to make the decision.

2. Regulatory: An organization that has decision-making authority in its own right usually within a policy framework enunciated in legislation, by regulation or through policy statements by the government (although the decisions may be subject to appeal to the courts, to a Minister or to the Lieutenant-Governor-in-Council); and reviews, studies, investigates, arbitrates or adjudicates on matters, after which it makes a decision in the form of an approval, a licence, a certificate, etc.

3. Quasi-Judicial Tribunal: An organization that has decision-making authority in its own right (although the decision may be subject to appeal) and adjudicates or arbitrates on issues between competing interests brought before it, follows judicial rules or procedure and evidence and has most or all of the coercive powers of a court of law. In most cases, quasi-judicial tribunals hear appeals of administrative decisions by government or quasi-government officials.

4. Administrative: An organization that provides goods or services, but not on a basis designed to cover costs; and administers programs of, on behalf of or in conjunction with the Government pursuant to a statute, regulation or order-in-council.

5. Professional Self-Governing: An organization that establishes and administers standards of performance for designated professional disciplines and has disciplinary powers over its members to enforce such standards. These powers have been explicitly delegated by statute or regulation from the Government to the organizations. The standards or disciplinary actions may require ministerial or Lieutenant-Governor-in-Council approval prior to coming into effect.

6. Crown Corporations: Corporate bodies that produce or provide goods or services to the government or for sale to non-government consumers and, by mandate or by circumstance, operate or are expected to operate on a financially self-sustaining basis.

Using these six new generic definitions, categories were constructed, each with a set of requirements relating to their relationship with the

government. These requirements are proposed as standards only to allow flexibility to accommodate the legitimate requirements of individual organizations. Accordingly, exemptions from or additions to the requirements for individual organizations would be acceptable when justified by particular circumstances.

PART B

Proposed Administrative Standards For New Categories

Category A

Category A includes all those organizations identified as "advisory", "regulatory", "quasi-judicial" and those "administrative" organizations that are very closely associated with the government. The proposed standard administrative requirements would be imposed through the Manual of Administration and are as follows:

- Subject to all the administrative policies established by Management Board;
- Administrative support provided by the Ministry;
- Staff appointed under the Public Service Act;
- A sunset review undertaken every three years;
- Audit by Ministry to ensure compliance with applicable administrative policies;
- External audit by Provincial Auditor;
- Submission of annual reports, including audited financial statements, either independently or as part of the annual report of the Ministry for tabling in the Legislature by the responsible Minister. Annual reports submitted independently should be tabled in the Legislature within six (6) months of the end of the financial year to which they apply, or if the Legislature is not sitting, at the next sitting day of the Legislature on which the Legislature is in session.

Category B

Category B would include the remaining organizations identified as "administrative" which operate at some distance from government. The proposed standard regime applying to the organizations in this Category are as follows:

- Provide their own administrative support staff;
- Staff need not be appointed under the Public Service Act;
- Annual multi-year strategic plans submitted by managing board for the approval of the Minister;
- Audit by Ministry against approved strategic plans and to ensure compliance with applicable administrative policies;
- Submission to Minister of (unaudited) quarterly variance reports (against approved strategic plan) and where applicable, capital expenditure status reports;
- External audit by Provincial Auditor;
- Submission of annual reports, including audited financial statements, either independently or as part of the annual report of the Ministry for tabling in the Legislature by the responsible Minister. Annual reports submitted independently should be tabled within six (6) months of the end of the financial year to which they apply, or if the Legislature is not then sitting, on the next sitting day in which the Legislature is in session.
- For corporate bodies:
  - the acquisition or incorporation of a subsidiary or affiliate subject to approval by the Lieutenant-Governor-in-Council, and the name of any subsidiary 50% or more owned, directly or indirectly, by the parent Crown corporation listed on the Schedules with the parent, for information purposes only;
  - all by-laws of a parent corporation shall come into force when approved by resolution of the board of directors, but must be submitted to the Minister within ten days and the Minister may confirm, reject or amend any by-law;
  - establishment of audit committees as if section 157 of the Business Corporations Act, 1982 (Ontario) applied;

Crown Corporations Category

- Expected to finance themselves from internally generated funds, government-held equity or debt;
- May raise long-term debt financing only from the Consolidated Revenue Fund and with the approval of the Lieutenant-Governor-in-Council on the recommendation of the Treasurer and responsible Minister;*
- Required to submit, for the approval of the responsible Minister and the Treasurer, an annual multi-year strategic plan;
- Submission to the Minister and Treasurer of (unaudited) quarterly variance reports (against approved strategic plan), and quarterly capital expenditure status reports;
- The acquisition or incorporation of a subsidiary or affiliate subject to approval by the Lieutenant-Governor-in-Council, and the name of any subsidiary 50% or more owned, directly or indirectly, by the parent Crown corporation listed on the Schedules with the parent, for information purposes only;
- All by-laws of a parent Crown corporation shall come into force when approved by resolution of the board of directors, but must be submitted to the Minister within ten days and the Minister may confirm, reject or amend any by-law;
- Not subject to the general policies of Management Board applicable to Category A or B organizations;
- Staff not appointed under the Public Service Act;
- Manage their own administrative support services;
- Establishment of audit committees as if section 157 of the Business Corporations Act, 1982 (Ontario) applied;
- Provincial Auditor eligible for appointment as external auditor or joint auditor; usually private sector accounting firms appointed;

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* Ontario Hydro is and could continue to be exempted from this requirement. No other exemptions should be granted.

- Submission of annual reports, including audited financial statements, for tabling in the Legislature by the appropriate minister. Financial statements should be prepared pursuant to generally accepted accounting principles and audited against generally accepted auditing standards. Reports should be tabled in the Legislature within six (6) months of the end of each financial year, or if the Legislature is not in session, at the next available sitting day of the Legislature.

PART C

SCHEDULES TO

THE MANUAL OF ADMINISTRATION

CATAGORY "A"	
TOTAL:	132
- Administrative -	28
- Advisory -	16
- Quasi Judicial -	60
- Regulatory -	28

CATEGORY "B"	
TOTAL:	56
- Administrative -	56

CROWN CORPORATIONS	
TOTAL:	51
- Parents -	24
- Subsidiaries -	27

EXCLUSIONS	
TOTAL:	462
- Committees -	154
- Organizations -	184
- Anomolies -	124

NOTES:

+ - denotes groups of agencies, as listed at the back of the appendix on page xviii.

[ ] - denotes wholly owned or controlled subsidiaries. They are listed directly below their respective parent agency in the list.

* - Northern Ontario Development Corporation now holds two commercial subsidiaries, both of which are to be transfered to independent agency status as Crown corporations under the Ministry of Tourism & Recreation. The parent, NODC is an ADMINISTRATIVE "A" and has not been counted as a Crown corporation.

** - denotes advisory committees which are affiliated with another agency and report to that agency. Agency acronyms are denoted in the list.

*** - denotes professional self-governing bodies, 14 of which do not satisfy the control criterion and 14 of which do. The latter are excluded pursuant to recommendations in the Main Report(pp.36-37).

!! - denotes regional and local boards of Commissioners of Police, 22 of which do not satisfy the control criterion and 52 of which do. The latter are excluded pursuant to recommendations in the Main Report(p.37).

- Local Housing Authorities, as recommended in the Main Report(pp.37-38), are excluded on the basis of their "subsidiary" relationship with and reporting to a "parent" (Ontario Housing Corporation) agency, not to a ministry.

MINISTRY NAME	MINISTRY ACRONYM
Ministry of Agriculture & Food	AGF
Ministry of the Attorney General	AG
Ministry of Citizenship & Culture	C&C
Ministry of Colleges & Universities	C&U
Ministry of Community & Social Services	CSS
Ministry of Consumer & Commercial Relations	CCR
Ministry of Correctional Services	CS
Ministry of Education	ED
Ministry of Energy	ENG
Ministry of the Environment	ENV
Ministry of Government Services	GS
Ministry of Health	HTH
Ministry of Industry & Trade	I&T
Ministry of Labour	LAB
Management Board of Cabinet	MBofC
Ministry of Municipal Affairs & Housing	MA&H
Ministry of Natural Resources	NR
Ministry of Northern Affairs	NA
Minister Responsible for Women's Issues	MRWI
Office of the Premier	OP
Provincial Secretariat for Resources Development	PSRD
Provincial Secretariat for Social Development	PSSD
Ministry of Skills Development	SD
Ministry of the Solicitor General	SG
Ministry of Tourism & Recreation	T&R
Ministry of Transportation & Communication	T&C
Ministry of Treasury & Economics	T&E

SCHEDULES TO

THE MANUAL OF ADMINISTRATION

CATEGORY "A"

ADMINISTRATIVE	
Agricultural Rehabilitation and Development Directorate	AGF
Agricultural Research Institute of Ontario	AGF
Cooperative Loans Board of Ontario	AGF
Crop Insurance Commission of Ontario	AGF
Egg Fund Board	AGF
Farm Income Stabilization Commission of Ontario	AGF
Ontario Farm Machinery Board	AGF
Ontario Junior Farmer Establishment Loan Corporation	AGF
Finance Committee for the Investment of Court Funds	AG
Beechgrove Regional Children's Centre Board of Governors	CSS
Ontario Centre for the Prevention of Child Abuse	CSS
Soldiers' Aid Commission	CSS
Provincial Schools Authority	ED
Provincial Judges Benefits Board	GS
Public Service Superannuation Board	GS
Eastern Ontario Development Corporation	I&T
Northern Ontario Development Corporation	I&T
Ontario Development Corporation	I&T
Ontario Housing Corporation (OHC)	MA&H
Manpower Commission	SD
Ontario Telephone Development Corporation	T&C
Ontario Transportation Development Coporation(inactive)	T&C
Ontario Education Capital Aid Corporation	T&E
Ontario Municipal Employees Retirement Board	T&E
Ontario Municipal Improvement Corporation	T&E
Ontario Universities Capital Aid Corporation	T&E
Saint Mary's River Bridge Company	T&E
Teachers' Superannuation Commission	T&E

ADVISORY	
Ontario Agricultural Council	AGF
Ontario Agricultural Museum Advisory Board (OAM)	AGF
Ontario Grain Corn Council	AGF
Judicial Council for Provincial Judges	AG
Ontario Law Reform Commission	AG
Ontario Provincial Courts Committee	AG
Ontario Council of Regents for C. A. A. T.'s	C&U
Ontario Council on University Affairs	C&U
Ontario Student Assistance Program Appeal Board	C&U
Selection Board (Ontario Graduate Scholarships)	C&U
Medical Advisory Board - Family Benefits Act	CSS
Medical Advisory Board - Vocational Rehabilitation Services	CSS
Board of Review - Lieutenant Governor Warrants	HTH
Healing Arts Radiation Protection Commission	HTH
Niagara Escarpment Commission	PSRD
Ontario Economic Council	T&E

QUASI JUDICIAL

Agricultural Licensing and Registration Review Board	AGF
Farm Products Appeal Tribunal	AGF
Farm Tax Rebate Appeal Board	AGF
Ontario Drainage Tribunal	AGF
Produce Arbitration Board	AGF
Wolf Damage Assessment Board	AGF
Board of Negotiation	AG
Criminal Injuries Compensation Board	AG
Ontario Municipal Board	AG
Police Complaints Board	AG
Private Vocational School Review Board	C&U
Children's Services Review Board	CSS
Social Assistance Review Board	CSS
Commercial Registration Appeal Tribunal	CCR
Ontario Board of Parole	CS
Ontario Regional Special Education Tribunals +	ED
Ontario Special Education Tribunals (1-Eng,1-Fre) +	ED
Board of Valuation	ENG
Board of Negotiation	ENV
Environmental Appeal Board	ENV
Environmental Assessment Board	ENV
Denture Therapists Appeal Board	HTH
Funeral Services Review Board	HTH
Health Disciplines Board	HTH
Health Facilities Appeal Board	HTH
Health Protection Appeal Board	HTH
Health Services Appeal Board	HTH
Hospital Appeal Board	HTH
Laboratory Review Committee	HTH
Nursing Homes Review Board	HTH
Review Boards (for pyschiatric facilities - regional) +	HTH
Crown Employees Grievance Settlement Board	LAB
Ontario Human Rights Commission	LAB
Ontario Public Service Labour Relations Tribunal	LAB
Ontario Provincial Police Grievance Board	MBofC
Ontario Provincial Police Negotiating Committee	MBofC
Public Service Grievance Board	MBofC
Building Code Commission	MA&H
Game and Fish Hearing Board	NR
Animal Care Review Board	SG
Coroners' Council	SG
Fire Code Commission	SG
Ontario Police Arbitration Commission	SG
Licence Suspension Appeal Board	T&C

REGULATORY

Farm Products Marketing Board	AGF
Farm Products Payment Board	AGF
Grain Financial Protection Board	AGF
Livestock Financial Protection Board	AGF
Milk Commission of Ontario	AGF
Ontario Apple Marketing Commission	AGF
Ontario Cream Producers' Marketing Board	AGF
Ontario Crop Insurance Arbitration Board	AGF
Ontario Milk Marketing Board	AGF
Processing-Vegetable Financial Protection Board	AGF
Assessment Review Board	AG
Conservation Review Board	C&C
Liquor Licence Board of Ontario	CCR
Ontario Film Review Board	CCR
Ontario Racing Commission	CCR
Ontario Securities Commission (OSC)	CCR
Pension Commission of Ontario	CCR
Residential Tenancy Commission	CCR
Languages of Instruction Commission of Ontario	ED
Ontario Energy Board	ENG
Ontario Labour Relations Board	LAB
Civil Service Commission	MBofC
Building Materials Evaluation Commission	MA&H
Lake of the Woods Control Board	NR
Ontario Police Commission	SG
Ontario Highway Transport Board	T&C
Ontario Telephone Service Commission	T&C
Inflation Restraint Board	T&E

CATEGORY "B"

ADMINISTRATIVE	TOTAL:
McMichael Canadian Collection	C&C
Ontario Educational Communications Authority (TV Ontario)	C&C
Ontario Heritage Foundation	C&C
Ontario Historical Studies Series - Board of Trustees	C&C
Ontario Science Centre	C&C
Province of Ontario Council for the Arts	C&C
Royal Ontario Museum	C&C
Boards of Governors of C. A. A. T.'s +	C&U
College Relations Commission	C&U
Council of the Ontario College of Art	C&U
Ontario Share & Deposit Insurance Corporation	CCR
Education Relations Commission	ED
Ontario Institute for Studies in Education	ED
Alcoholism and Drug Addiction Research Foundation (ARF)	HTH
Clarke Institute of Psychiatry	HTH
Community Mental Health Clinic, Guelph	HTH
Ontario Cancer Institute	HTH
Ontario Cancer Treatment and Research Foundation	HTH
Ontario Mental Health Foundation (OMHF)	HTH
Ontario Research Foundation	I&T
[Ordco Technology Limited]	-
Workers' Compensation Board	LAB
Boards of Trustees for Improvement Districts +	MA&H
Moosonee Development Area Board	MA&H
Canada's Capital Congress Centre	T&R
Niagara Parks Commission	T&R
Ontario Trillium Foundation	T&R
St. Lawrence Parks Commission	T&R
Toronto Area Transit Operating Authority	T&C

CROWN CORPORATIONS

Ontario Food Terminal Board	AGF
Ontario Stock Yards Board	AGF
[416879 Ontario Limited]	-
Liquor Control Board of Ontario	CCR
Ontario Energy Corporation	ENG
[Eneroil Limited]	-
[Onexco Minerals Ltd.]	-
[Onexco Oil & Gas Ltd.]	-
[Ontario Energy Resources Ltd.]	-
[Ontario Energy Ventures Ltd.]	-
[Trillium Exploration Corporation]	-
Ontario Hydro	ENG
Ontario Van Pool Organization Limited	ENG
Ontario Waste Management Corporation	ENV
IDEA Corporation	I&T
[IDEA Biological & Medical Technology Fund Inc.]	-
[IDEA Chemical & Process Technology Fund Inc.]	-
[IDEA Information Technology Fund Inc.]	-
[IDEA Innovation Fund Inc.]	-
[IDEA Investment Research Fund Inc.]	-
[IDEA Machine & Automation Technology Fund Inc.]	-
[IDEA Microelectronics Fund Inc.]	-
- Northern Ontario Development Corporation *	I&T
[Minaki Lodge Resort Limited]	-
[Minaki Development Company Limited]	-
Ontario Centre for Advanced Manufacturing (CAD/CAM)	I&T
Ontario Centre for Automotive Parts Technology	I&T
Ontario Centre for Farm Machinery and Food Processing Technology	I&T
Ontario Centre for Microelectronics	I&T
Ontario Centre for Resource Machinery	I&T
Ontario International Corporation	I&T
Ontario Land Corporation	MA&H
[Ontario Mortgage Corporation]	-
Algonquin Forestry Authority	NR
Ontario Northland Transportation Commission	NA
[Owen Sound Transportation Company Limited]	-
[Star Transfer Limited]	-
Niagara Falls Bridge Commission	OP
Metropolitan Toronto Convention Centre Corporation	T&R
Ontario Lottery Corporation	T&R
Ontario Place Coporation	T&R
Thunder Bay Ski Jumps Limited	T&R
Urban Transporation Development Corporation Ltd.	T&C
[CanCar Rail Inc.]	-
[Metro Canada International Limited]	-
[Metro Canada Limited]	-
[RailTrans Industries of Canada Inc.]	-
[UTDC (USA) Ltd.]	-
[UTDC Research & Development Ltd.]	-
[UTDC Services Inc.]	-
[VentureTrans Manufacturing Inc.]	-
Stadium Corporation of Ontario Limited	T&E

ORGANIZATIONS TO BE EXCLUDED FROM
THE SCHEDULE TO THE MANUAL OF ADMINISTRATION

COMMITTEES (and others not constituted as organizations)

Advisory Committees on Diploma Education +	AGF
Beginning Farmer Assistance Program Review Committee	AGF
Livestock Medicines Advisory Committee	AGF
OAM - Artifacts Valuation Committee **	AGF
Advisory Committee of Public Trustee on Investments	AG
Rules Committee of the Provincial Courts (Civil Division)	AG
Rules Committee of the Provincial Courts (Criminal Division)	AG
Rules Committee of the Provincial Courts (Family Division)	AG
Rules Committee of the Supreme and District Courts	AG
Statutory Powers Procedure Rules Committee	AG
Ontario Advisory Council on Multiculturalism & Citizenship	C&C
Academic Advisory Committee	C&U
University Research Incentive Fund Selection Committee	C&U
Training Schools Advisory Board	CSS
OSC - Commodity Futures Advisory Board **	CCR
OSC - Financial Disclosure Advisory Board **	CCR
Ministry's Advisory Council for Treatment of the Offender	CS
Advisory Council on Special Education	ED
Council for Franco-Ontarian Education	ED
Farm Pollution Advisory Committee	ENV
Ontario Environmental Assessment Advisory Committee	ENV
Pesticides Advisory Committee	ENV
Prov. of Ontario Medal for Firefighters' Bravery Advisory Council	GS
Province of Ontario Medal for Good Citizenship Advisory Council	GS
Province of Ontario Medal for Police Bravery Advisory Council	GS
Real Property Advisory Committee	GS
ARF - Professional Advisory Board **	HTH
Advisory Committee on Genetic Services	HTH
Advisory Committee on Inborn Errors of Metabolism in Children	HTH
Advisory Committee on Reproductive Care	HTH
Assistive Devices Advisory Committee	HTH
Conseil Des Affaires Franco-Ontariennes	HTH
Dental Personnel Selection Committee	HTH
District Health Councils +	HTH
Drug Quality and Therapeutics Committee	HTH
Health Care Systems Research Review Committee	HTH
Health Research & Development Council of Ontario	HTH
Health Research Personnel Committee	HTH
Joint Committee on Physicians' Compensation	HTH
Medical Eligibility Committee - Health Insurance	HTH
Medical Personnel Selection Committee	HTH
Medical Review Committee - Health Insurance	HTH
OMHF - Advisory Medical Board **	HTH
Ontario Council of Health	HTH
Professional Services Management Committee	HTH
Provincial Psychiatric Hospitals Community Advisory Boards +	HTH
Review Committee - Chiropody (Health Insurance)	HTH
Review Committee - Chiropractic (Health Insurance)	HTH
Review Committee - Dentistry (Health Insurance)	HTH
Review Committee - Optometry (Health Insurance)	HTH

Advisory Council on Occupational Health and Occupational Safety	LAB
Agricultural Industry Advisory Committee	LAB
Industrial Standards Advisory Committees +	LAB
Labour-Management Advisory Committee	LAB
Public Service Classification Rating Committee	MBofC
Ontario Building Industry Development Board	MA&H
Exploration Technology Review Committee	NR
Geoscience Research Review Committee	NR
Ontario Forestry Council	NR
Ontario Geographic Names Board	NR
Ontario Renewable Resource Research Fund Board	NR
Provincial Parks Council	NR
Rabies Advisory Committee	NR
Sturgeon River/Lake Nipissing/French River Watershed Mgt. Adv. Bd.	NR
Ontario Status of Women Council	ODP
Ontario Advisory Council on Senior Citizens	PSSD
Ontario Advisory Council on the Physically Handicapped	PSSD
Apprenticeship & Tradesmen's Provincial Advisory Committees +	SD
Advisory Committee on Crime Prevention	SG
Huronia Historical Development Council	T&R
Old Fort William Advisory Committee	T&R
Ontario Sport Medicine & Safety Advisory Board	T&R

ORGANIZATIONS NOT SATISFYING CONTROL CRITERIA

Council of the Association of Professional Engineers of Ont. ***	AG
Council of the Ontario Association of Architects ***	AG
Joint Practice Board (Architects & Engineers) ***	AG
Law Foundation of Ontario ***	AG
Law Society of Upper Canada ***	AG
Art Gallery of Ontario	C&C
CJRT-FM Inc.	C&C
Royal Botantical Gardens	C&C
Governing Bodies of Universities +	C&U
Ryerson Polytechnical Institute - Board of Governors	C&U
Sunnybrook Hospital - Board of Trustees	C&U
Council of Registered Insurance Brokers of Ontario ***	CCR
Operating Engineers - Board of Examiners ***	CCR
Toronto Futures Exchange - Board of Directors	CCR
Toronto Stock Exchange - Board of Directors	CCR
District Boards of Mgmt. for Homes for the Aged & Rest Homes +	CSS
District Welfare Administration Boards +	CSS
Board of Visitors of Homewood Sanitarium, Guelph	HTH
Boards of Governors (Directors/Trustees) of Public Hospitals +	HTH
Council of the College of Nurses of Ontario ***	HTH
Council of the College of Optometrists of Ontario ***	HTH
Council of the College of Physicians and Surgeons of Ontario ***	HTH
Council of the Ontario College of Pharmacists ***	HTH
Council of the Royal College of Dental Surgeons of Ontario ***	HTH
Health Unit Boards (Public Health) +	HTH
Board of Management of the Guild	MA&H
Canadian National Exhibition Association	MA&H

Municipal Advisory Committee, Northeastern Ontario	NA
Municipal Advisory Committee, Northwestern Ontario	NA
Association of Ontario Land Surveyors - Board of Examiners ***	NR
Association of Ontario Land Surveyors - Council ***	NR
Conservation Authorities +	NR
Freshwater Fish Marketing Corporation	NR
Ottawa River Regulation Planning Board	NR
Local Boards of Commissioners of Police + !!	SG
Regional Boards of Commissioners of Police + !!	SG
St. Clair Parkway Commission	T&R

EXCLUDED ANOMOLIES

Regional Boards of Commissioners of Police + !!	SG
Local Boards of Commissioners of Police + !!	SG
OHC - Local Housing Authorities + #	MA&H
Operating Engineers - Board of Review ***	CCR
Travel Industry Compensation Fund - Board of Trustees ***	CCR
Board of Directors of Chiropractic ***	HTH
Board of Directors of Drugless Therapy ***	HTH
Board of Directors of Masseurs ***	HTH
Board of Directors of Osteopathy ***	HTH
Board of Directors of Physiotherapy ***	HTH
Board of Funeral Services ***	HTH
Board of Opthalmic Dispensers ***	HTH
Board of Radiological Technicians ***	HTH
Board of Regents of Chiropody ***	HTH
Governing Board of Dental Technicians ***	HTH
Governing Board of Dental Therapists ***	HTH
Ontario Board of Examiners in Psychology ***	HTH

GROUPS

QUASI JUDICIAL

Ontario Regional Special Education Tribunals +	ED	12
Ontario Special Education Tribunals (1-Eng,1-Fre) +	ED	2
Review Boards (for pyschiatric facilities - regional) +	HTH	5

CATEGORY "B": ADMINISTRATIVE

Boards of Governors of C. A. A. T.'s +	C&U	22
Boards of Trustees for Improvement Districts +	MA&H	7

COMMITTEES (and others not constituted as organizations)

Advisory Committees on Diploma Education +	AGF	5
District Health Councils +	HTH	26
Provincial Psychiatric Hospitals Community Advisory Boards +	HTH	8
Industrial Standards Advisory Committees +	LAB	4
Apprenticeship & Tradesmen's Provincial Advisory Committees +	SD	44

ORGANIZATIONS NOT SATISFYING CONTROL CRITERION

Governing Bodies of Universities +	C&U	10
District Boards of Mgmt. for Homes for the Aged & Rest Homes +	CSS	10
District Welfare Administration Boards +	CSS	6
Boards of Governors (Directors/Trustees) of Public Hospitals +	HTH	25
Health Unit Boards (Public Health) +	HTH	43
Conservation Authorities +	NR	39
Local Boards of Commissioners of Police +	SG	16
Regional Boards of Commissioners of Police +	SG	6

EXCLUDED ANOMOLIES

Regional Boards of Commissioners of Police +	SG	2
Local Boards of Commissioners of Police +	SG	50
OHC - Local Housing Authorities +	MA&H	58

AGENCIES, BOARDS AND COMMISSIONS PROJECT

SECOND REPORT

PRIVATIZATION OF ONTARIO CROWN CORPORATIONS

Introduction

Several western democratic governments, including a few in Canada, have embarked on or are considering privatizing a range of activities currently undertaken within government. If experience in other jurisdictions is any indication, privatizations are difficult to do, and are particularly difficult to do well. Even the current U.K. government, which has had the most aggressive and successful privatization program, has encountered major problems, delays and set-backs.

It is evident from the experience of other governments that major problems are often encountered if a privatization program is initiated without having first devised a detailed strategy and worked out an internal privatization process.

The purpose of this report, therefore is to set out the major benefits and costs of privatization and to propose a process of privatization for Ontario should the government decide to embark upon privatizations. The confidential appendix to this report consists of a discussion of eleven Crown corporations or parts of Crown corporations that have previously been identified as potential privatization candidates, or could be privatization candidates.

The observations and recommendations in this report often refer to the experience of other governments. Although there is much to be learned from the successes and failures of other governments, their experience is not always relevant or applicable to Ontario. Every jurisdiction has

its peculiarities in terms of the size, structure and diversity of its public enterprise sector, its internal organization and political and bureaucratic processes. The recommendations and observations have, accordingly, been adapted to the particular circumstances and requirements of the Ontario Government.

What Privatization Means

Privatization, in the current vernacular, usually means the divestiture to the private sector of a government's commercial or quasi-commercial activities and assets . Actually, privatization should be perceived as a continuum, with outright divestiture at one extreme and the introduction of private sector management, accounting, financing and other practices at the other.

Within this continuum the approaches to privatization include:

- issuing preferred (i.e. non-voting) shares or similar debt instruments to the general public, as the Saskatchewan government has done with Saskatchewan Power Corporation "savings bonds", or with "participating bonds" in the case of Saskatchewan Oil and Gas Corporation;
- turning over the day-to-day management of selected Crown corporations or parts thereof to the private sector using the mechanism of management contracts, as has been done by CN Hotels contracting out administration of some of its hotels;
- winding up a Crown corporation and allowing private-sector interests to move into the vacuum, either in response to a market

opportunity or through the stimulus of government contracts, subsidies or guarantees.

Full benefits from privatization are likely to occur only in cases where the ownership and management of the activities are effectively transferred to the private sector through divestiture. Although this paper focuses on divestiture, therefore, the government should not lose sight of other methods of privatization.

What Divestiture Means

For the purpose of this paper, divestiture is taken to mean any of the following actions:

1. The sale of all or a self-contained portion of the assets of a government-owned enterprise; or
2. The sale of all or a portion of the shares or ownership rights in a government-owned enterprise (1); or
3. The sale of all or a portion of the shares or ownership rights in a subsidiary or affiliate of a government-owned enterprise.

Why Privatize?

A review of Ontario's commercial and quasi-commercial enterprises illustrates a range of rationales for government involvement in the first place, including overcoming specific instances of market failure and high

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1. Most of Ontario's government-owned corporations are not corporations with share capital.

barriers to market entry (UTDC), establishing public control and accountability over monopolies and monopoly rents (Ontario Hydro), rescuing or restructuring failing firms (Minaki Lodge), providing a catalyst for economic development (IDEA Corporation) and providing commercial services for reasons of public policy (Ontario Northland Transportation Commission). The extent to which any of these rationales persist will deter privatization to-day.

Even in such cases, however, there could well be other, more effective methods of achieving the same goals, but with less government involvement and financial exposure. Alternatives include government regulation and subventions of various kinds, including cost-plus contracts to private industry to undertake non-economic services. Experience has proved that the Crown corporation form is sometimes the easiest, but least efficient mechanism for achieving public policy goals.

Furthermore, carefully-selected and well-thought-out divestitures should produce some or all of the following benefits:

1. Fiscal Flexibility: Reducing the government's overall funding requirements and its direct and contingent liabilities. This would enable government to reduce fiscal deficits or alternatively to channel funds into new, more productive or more urgently-required initiatives.
2. Policy and Managerial Effectiveness: The size and scope of Ontario's agencies sector could be close to maximum size from the point of view of effective operations and effective government control, direction and accountability. Divestiture not only reduces the

number of agencies, it also leaves room for new government enterprises to be created in response to legitimate current or future needs without imperilling the government's management system.

3. Economic Efficiency: In a narrow economic sense, there are several areas in which Crown corporations may impair economic efficiency on both firm and macro levels:

   a) Rates of Return: Regardless of the jurisdiction, Crown corporations often lag behind their private-sector competitors in rates of return on invested capital. Analysis of 15 "commercial" Ontario Crown corporations discloses an average rate of return on capital employed of 3.9%, even including the LCBO (209.3%) and the Ontario Lottery Corporation (387.65%). Given such figures, the argument is often made that public enterprises contribute to overall economic inefficiency as scarce capital is directed to less productive investment.

   b) Factors of Production: Crown corporations sometimes pay higher than market rates for factors of production, thereby applying upward pressure on such rates and potentially redirecting resources from private sector into public sector activity.

   c) Technical Efficiency: Because of the government's "deep pocket" and the fear of political embarrassment from technical failures or inadequacies, Crown corporations tend to emphasize technical over rate-of-return efficiency.

The reasons for Crown corporations' relatively poor commercial performance stem, in large part, from their relationship with government. As appendages of government, they are mandated to pursue non-commercial,

public policy objectives. Because they have privileged access to the Consolidated Revenue Fund (CRF), they are largely immune from the discipline of the capital markets. In effect, they are immune from bankruptcy. Their relatively poor commercial performance and their ability to charge for goods and services at rates different from those required by market forces not only distort the market, but may also act as a barrier to market entry by private sector firms.

4. Fiscal Requirements: Divestiture of all or a portion of government ownership in a corporation can have a positive impact on a government's fiscal position in two ways: First, divestiture can provide cash that can then be applied to the government's overall financing requirements. This would reduce the government's revenue requirements through taxes or borrowings. Second, divestiture of chronic money losers has an important impact on the government's future fiscal position as it enables the government to avoid the losses that would otherwise occur. The actual divestiture benefit in this instance is the present discounted value of the expected losses of the divested enterprise.

   Positive net cash flows to the CRF, however, occur in an accounting sense, only when divestiture occurs at a price higher than net book value. In the current market environment, net book value is often an unrealistic expectation. Accordingly, few divestitures will actually result in net cash flow to the government, and, therefore, in deficit reduction.

Divestiture also has some potential benefits for the individual corporations.

5. Recapitalization: Government-owned enterprises tend to be heavily debt financed relative to their private sector competitors. This makes them vulnerable to changes in business conditions and to interest rates. Growth and increasing the stability of the corporations may, therefore, require infusions of equity capital that are difficult for the government to supply in a time of fiscal restraint. Divestitures have sometimes been structured to not only liquidate the government's interests, but also to expand the equity base of the privatized corporation.

6. Financing Flexibility: Government-owned or controlled corporations seldom have access to the full range of financing alternatives available to their private sector competitors or to private sector firms in general. A by-product of divestiture, therefore, would be to allow a corporation access to such diverse financing alternatives as common and preference equity, convertible debt and share exchanges, acquisitions or mergers, in order to allow it to sustain growth and develop new projects in response to market forces and opportunities.

Public Reaction to Divestiture

According to a recent poll on the subject, 49% of Canadians feel the current level of government ownership is "excessive". Sixty-six (66%) percent support the privatization of Crown corporations. Those supporting privatization believe it would result in more efficiently-run enterprises and that governments should not be competing with the private sector.

These polls relate to federal Crown corporations and to privatization in the abstract. It is difficult to extrapolate anything from them for Ontario purposes, or with respect to individual Crown corporations. It is a fair assumption, however, that short-term uncertainties introduced by divestiture will often give rise to concerns among those who are most closely affected - unions, employees, consumers, local governments and so on. The possible "costs" of privatization, such as job losses through rationalizations, tend to be short-term and tangible. The potential benefits, such as increased economic efficiency or a lower public sector borrowing requirement, tend to be long-term and less tangible. Only rarely, therefore, will an individual privatization be likely immediately to excite offsetting general support.

For these reasons, governments often try to effect divestitures early in their terms of government. This allows time for any initial public opposition to dispel, or to be overcome by public support in the long term as the benefits of divestiture are realized, or as the fears relating to divestiture are not realized.

When to Divest

Divestiture of public enterprise should not as a matter of government policy, be considered as an end in itself. Divestiture prospects should be examined on a case-by-case basis. The essential criterion is that expected benefits to accrue from divestiture must outweigh the anticipated costs.

In general terms, complete or partial divestiture of a government-owned or controlled enterprise should be given serious consideration in any of the following circumstances:

1. When a government-owned or controlled corporation is no longer required to meet its mandated public policy objectives;
2. When a government-owned or controlled corporation still contributes to the achievement of explicit government public policy objectives, but those objectives could be achieved more efficiently and effectively under private sector ownership and management;
3. When an "infant" industry has matured to the point, or a "rescued" industry has been rationalized or restructured to the point where it presents an attractive opportunity to private sector investors; or
4. When a public enterprise has become a significant and persistent drain on the Consolidated Revenue Fund to the extent that, in a cost-benefit sense, it is detracting from the pursuit of other public policy goals.

Issues and Factors for Consideration

Each instance of divestiture will raise unique and important issues for consideration. From experience elsewhere, however, the following issues tend to be common to all to or most divestitures and should, therefore, be considered and resolved in advance:

1. Monopolies: Monopolies, by their very nature and given governments' reasons for owning them in the first place are seldom prime candidates for divestiture. Their divestiture invariably requires the creation or enhancement of a parallel regulatory framework or the introduction of effective competition.

The British have tried to address this problem by introducing competition, thereby in theory "breaking the monopoly". The attempts have not been completely successful. In the telecommunications field, previously monopolized by government-owned British Telecom, the new entrant (Mercury) was able to gain only 5% of market share. Although Mercury's presence may have prompted British Telecom to rebalance tariffs and act more commercially towards its customers, its small market share left the vast bulk of British Telecom's business unchallenged.

Governments can also expect political criticism for transferring the ownership of monopolies, with the attendant monopoly powers and profits, to private sector investors.

For these reasons, unless it is realistically feasible to introduce effective competition, de facto, de jure or natural monopolies should not be considered prime candidates for divestiture. When divestiture of such monopolies is contemplated, political criticism could most effectively be met if the ownership were transferred to the general public, rather than to a controlling corporation or to a small group of investors and if an effective parallel regulatory authority is in place.

2. Government's Continuing Interest: For continuing control or for equity market considerations, governments often retain, at least for a time, a significant or controlling interest in a "privatized" corporation. When this happens, the market may demand that the government give a non-interference covenant that prohibits the government from using the

corporation for non-commercial, public policy purposes, or in any way that "oppresses" the private sector shareholders.

As such, the government can be left with the worst of both worlds: On one hand, it is legally or practically prohibited from interference; but experience shows that, on the other hand, the public still holds it to account for the corporation's activities and performance.(2)

As a general rule, the government should not consider a partial divestiture of an enterprise that it wishes to continue using as a public policy instrument, unless it can do so via subsidies, contracts and the like and not through the exercise shareholders' powers.

Accordingly, it is proposed that the government consider divestiture only when 100% divestiture is realistically feasible. Any retention by the government of a portion of the equity or ownership rights should be considered only as a short-term step towards total divestiture and not as a vehicle of continuing control and direction of the corporation's business and affairs.

3. Private Sale or Wide Distribution of Shares: Governments may fear political criticism expected if a government-owned or controlled corporation is divested to a single shareholder or to a small group of shareholders. In addition, the U.K. government has favoured wide distribution of shares as a bulwark against renationalization of the

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2. The federal government's experience with the Canada Development Corporation (CDC) is a case-in-point.

companies. In Canada, corporate concentration concerns are often raised when consideration is given to a private sale of a Crown corporation. Accordingly, divestitures thus far, have usually been to the general public and prohibitions against a controlling shareholder crystallizing have been established by placing a limit on the number of shares that can be held by any one person or company (the British Columbia Resources Investment Corporation (BCRIC),Pacific Western Airlines, the Canada Development Corporation), or by the government being able to veto any accumulation of shares beyond a certain limit. (3)

There are a number of problems that result from this approach:

First, because governments tend to be something less than vigilant shareholders, government enterprises tend over time to become management companies. In turn, wide share ownership effectively places greater control in management's hand. If divestiture results in Crown corporations becoming widely-held public companies, their management nature will likely be enhanced. Efficiency and shareholder accountability will not necessarily be maximized.

Second, a requirement that divestiture result in no controlling shareholder effectively blocks integration to effect rationalizations or to enhance efficiencies. In this regard, the frequent Canadian

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3. In the privatization of Enterprise Oil, the UK government retained a "golden share" that it used to block Rio Tinto Zinc's (RTZ) attempt to acquire a controlling block of shares. "Golden shares" have become a fixture in U.K. privatizations since they were first used in Amersham International.

preoccupation with corporate concentration is perhaps exaggerated. Integration is often necessary for Canadian firms to achieve even a minimum efficient size and to be able to compete domestically or internationally.

Third, a private sector investor is likely to be willing to pay a premium for a controlling or 100% shareholding, thereby helping to maximize the sale price of the enterprise.

Fourth, "getting the offering price right" for a public distribution of shares has proved to be difficult. If the price is set too low, shareholders can make windfall profits in the aftermarket and a government can look incompetent. If the price is set too high, the issue may fail or shareholders could lose money in the aftermarket and blame the government as, in fact, happened with BCRIC.

Finally, if the government wishes to maximize the offering price in a public distribution it may have to maintain a range of monopoly and other privileges the corporation enjoyed during government ownership.

Therefore, it is proposed that the government should not as a rule block, avoid or otherwise place limits on divestitures to a controlling shareholder when contemplating divestitures or to avoid private sales of Crown corporations.

4. Distribution of Free Shares: Several governments, most notably the British Columbia government in the case of BCIRC, have contemplated or actually undertaken the distribution of free shares to the public in

order to privatize a government enterprise. The head of the U.K. Social Democratic Party is proposing the giveaway of shares in government-owned utilities such as British Gas Corporation. One objective is to avoid criticism that the government is selling something to the public "that the public already owns".

Distribution of free shares defeats some of the purposes of divestiture. It obviously negates any cash flow to the CRF. More important, it can easily result in many shares being held by unsophisticated and disinterested shareholders who have little interest in pressing management for continuing improvements. This contributes to management control of the corporation. Further, the distribution of free shares can be an administrative nightmare.

Finally, if a government "induces" its people into becoming shareholders through share giveaways, the government is more likely to be called upon for further assistance (perhaps even a re-instatement of ownership) if the corporation falls upon hard times.

Accordingly, it is proposed that the government not give consideration to the distribution of free shares as a mechanism of divestiture.

5. Employee Participation: In the UK, government policy has required that employees be given preferential rights to acquire shares of an about-to-be privatized nationalized industry. Experience thus far is that nearly 90% of employees have exercised their right to purchase shares and that this has become a very effective mechanism of defusing

potential employee and to an extent union and public concerns about privatization. (4) By giving employees a stake in the success of the enterprise, productivity should be encouraged and union-management cleavages reduced.

In some cases, however, significant employee participation could discourage other potential investors from making a bid. It is argued, for example, that the federal government's insistence on significant community or employee ownership of a Crown corporation discouraged some potential investors and delayed its privatization.

It is proposed, therefore, that employees be given a preference in acquiring all or a portion of the shares of a government enterprise, but only in those situations where significant employee participation would not prejudice full divestiture.

6. Foreign Investment: Governments' shareholdings of 90% or more are immune from review by the Foreign Investment Review Agency (soon to be Investment Canada) on divestiture. Most privatizations in Canada have in any event been restricted to resident Canadian purchasers to avoid criticism of the sale of "national assets" to foreigners. The British have encouraged off-shore purchases of shares, but only up to a low pre-specified limit (usually 5-10%) and largely to provide an obstacle to re-nationalization of the companies by any subsequent administration.

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4. In the British Telecom privatization, employees purchased 5.0% of the issued shares.

Decisions will have to be made on a case-by-case basis, in consideration of the government's policy on offshore investment and depending on the "strategic importance" of each enterprise, but any sale of shares in Crown corporations to non-resident Canadians is almost certain to excite some public opposition.

7. Legislative Requirements: In nearly all conceivable cases, divestiture of a government enterprise will require some legislative action, either to authorize divestiture or to convert the company from a special act to a companies act company. (5) Although specific cases will often dictate results, experience elsewhere indicates that obtaining legislative approval is often a difficult and time-consuming process that must be taken into account in any divestiture planning.

8. Federal-Provincial Jurisdiction: In some cases, the divestiture of an Ontario Crown corporation could have the effect of transferring regulatory control over the corporation from Ontario to the federal government. For example, the sale of Ontario Northland Transportation Commission's telecommunications assets to a federally-regulated carrier could move the facility to the jurisdiction of the Canadian Radio-television and Telecommunications Commission (CRTC).

On one hand, such actions would reduce the regulatory burden for Ontario; on the other hand, they would have the effect of removing from Ontario effective regulatory monitoring and control.

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5. In order to obtain the full range of up-to-date powers accorded to a companies act company, to remove any special privileges or relationships accorded to the government or the corporation and to remove the potential for future interference from a potentially hostile government or Legislature.

Jurisdictional regulatory considerations, therefore, should be borne in mind when contemplating a divestiture. If the Province wishes to retain regulatory control, that will usually limit the field of enterprises put up for sale and the field of potential purchasers. It will also force the government to impose limitations on future sales and will in several respects, dictate the method of divestiture. All of these considerations will add to the difficulty and complexity of the exercise and may reduce the market value of the divestiture candidate.

9. "Cherry Picking": It is relatively easy for governments to divest of commercially viable and relatively profitable enterprises and much more difficult to divest of the chronic poor performers. A fundamental conundrum facing any government contemplating divestiture is whether on a government-wide basis to dispose of the relatively healthy corporations and to be left with a stable of chronic losers; or on the individual firm level to force individual corporations to divest of profitable activities while retaining the unprofitable ones.

"Cherry picking" will lead to further net drains from the Consolidated Revenue Fund as revenue producers are divested and the ability to cross-subsidize from profitable to non-profitable activities within corporations is lost.

"Cherry picking" will also lead to a clear exposure of the real costs of operating some of the non-economic activities within government enterprises that had been hidden by cross-subsidization. Although this allows the government, the Legislature and the public to

see and assess the real costs of certain activities, corporate morale is allegedly impaired and sloppy management practices condoned when divestiture results in a corporation losing all prospects of profitability or revenue self-sufficiency.

The British have explicity avoided "cherry picking" in the privatization programs for these reasons.

It is recommended that "cherry picking" not be avoided. In fact, "cherry picking" is probably inevitable if any divestitures are to occur. Any sale price should take account of and reflect the future earnings potential of a corporation. In any event, if a divestiture process is to begin, it has to start somewhere.

How to Privatize

The history of divestiture is far too short to be able to point to a process that has worked successfully. There appears, however, to be several lessons to be learned from experience in other jurisdictions.

1. Reactive or Active: Governments may either announce a general commitment to divestiture and wait for specific bids, or take the initiative in designating selected corporations or assets that are then put on the market,if necessary, with a series of policy and other conditions attached.

Experience indicates that the government must take the initiative if the divestiture program is to proceed in an orderly fashion. Otherwise, the government could well be faced with a range of diverse

and conflicting bids raising a plethora of issues that it is administratively incapable of handling in a reasonable period of time.

2. Policy and Regulatory Issues: One of the prime reasons for the failure of privatization initiatives in other jurisdictions has been a failure to identify and resolve the major policy, regulatory and other issues raised by divestiture.

   It is imperative that these issues be resolved in advance of any divestiture announcement and where necessary, attached as conditions that must be met by any bid.

   This ensures that prospective investors are not, in effect, being asked to buy an unknown quantity, or that the government is embarrassed by having overlooked an important consideration. Failure to specify the policy and regulatory framework may also frighten off prospective purchasers, or at least tempt them to discount significantly their offer.

3. Co-ordination and Control: British experience indicates that it is essential that one department or agency be made responsible for co-ordinating the privatization program, including specific divestitures. Since 1982, the British Treasury has performed this role. In this fashion, individual divestitures are efficiently co-ordinated and lessons learned in one exercise are applied to another.

   If the Government of Ontario decides to embark upon a series of divestitures, it is proposed that a unit within the Ministry of Treasury and Economics or Management Board be designated or created to oversee and co-ordinate the process.

4. Start Small: To ensure the credibility and success of the divestiture program as a whole, the first divestiture must be a success. Accordingly, it is wise to choose as a first candidate a relatively small corporation with good prospects for success in the private sector and one whose divestiture will not raise numerous and complex legal, policy, administrative or other issues. With experience and as the credibility of the divestiture program develops, larger and more complex enterprises can become feasible divestiture candidates.

5. Time: The current U.K. government was first elected in 1979. The first privatization did not occur until February 1981. (6) Divestiture takes time to resolve the policy issues, clean up the balance sheets as much as practicable, get the corporations or activities in shape to operate in the private sector, complete the negotiations and prepare and have approved the necessary legislation.

The timing considerations serve to emphasize the need for any government wishing to embark on a privatization program and see it through during its mandate to begin early, rather than late, in its term of office.

Steps to Privatization

In conclusion, there appear to be eight basic steps in the privatization process once a government has committed itself, in principle, to privatization:

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6. The sale of 51.6% of British Aerospace. The first 100% privatization did not occur until February 1982 (Amersham International). The government also divested of a total of 12% of British Petroleum in the period October 1979 to September 1983, but BP was already a mixed enterprise in which the government was a minority shareholder.

Step 1: Select a short-list of Crown corporations or parts of Crown corporations that are worthy of further study as privatization candidates. The review of eleven Crown corporations in the confidential appendix is intended to initiate this discussion by Cabinet.

Step 2: Appoint an advisor to assist in the valuation of selected privatization candidates on the short-list, to advise on the best method of sale in individual cases, such as private sale or public distribution and to advise on the pricing implications of any policy, regulatory or other conditions and requirements to be imposed on a purchaser. Experience in other jurisdictions suggests that the required expertise is simply not available within governments and is difficult for governments to obtain within public sector wage and other constraints.

The advisor could be an experienced investment dealer or accounting firm. The firm or firms chosen should be willing to forego any role in advising prospective purchasers or in underwriting an issue in order to avoid conflicts of interest. A firm that has had a lead role in one or more successful privatizations in another jurisdiction would be most helpful. The firm or firms appointed should be able to designate at least one senior partner to be committed to the project virtually 100% of his or her time.

Step 3: Designate a group within the government to be responsible for overseeing, co-ordinating and providing general direction to the privatization program. Based on British and federal experience, this group should probably be housed within the Ontario Ministry of Treasury and Economics or within the Management Board Secretariat.

Step 4: Identify the final list of candidates for privatization. The list should be based on the advisor's valuations, the complexity of the

regulatory, policy and other issues to be resolved, the likelihood of a responsive market and so on. These issues should be identified and analysed by the co-ordinating group in consultation with the advisor, the relevant Ministry and the privatization candidates themselves for ultimate review and approval by Cabinet.

Step 5: The heads of the candidate corporations should be convened and their full co-operation sought. In some cases it may be necessary to replace current management with individuals who are more fully committed to privatization and who will serve until the corporation is effectively privatized. At this time, a "task force" should be set up for each candidate corporation to oversee the process from this point forward. Each task force should be chaired by someone from the co-ordinating group. The relevant Ministry and the candidate corporation should also be represented on the task forces and the advisor should be a member ex officio.

Step 6: Resolution of policy, regulatory and other issues should follow by each task force. The final resolution would take the form of a Cabinet-approved clear framework within which the privatized company would operate, or a series of minimum conditions or requirements a bidder would have to meet. This framework or the conditions would be made public when bids are solicited or as part of the prospectus statement in a public distribution.

Step 7: The method and extent of privatization should then be decided for each candidate: private sale, general distribution of shares, employee/management buy out, issue of convertible preferred shares, 100% or 49% privatization, etc. or any variation, combination or permutation thereof. The method and extent of privatization would be based on the advisor's advice, maximization of price, the best way in which to achieve the framework require-

ments or the conditions developed in the previous step and to ensure that divestiture occurs as expeditiously as possible.

Step 8: If privatization is to be effected through a general distribution of shares, a lead underwriter should be located through a request for proposal process administered by the co-ordinating group. Once chosen, the lead underwriter should begin to assemble a syndicate and prepare a prospectus.

If the privatization is to be effected by other means, such as private sale or by an employee/management buy out, the government should announce the the candidate(s) for sale and invite expressions of interest. The co-ordinating group should receive those expressions of interest and after checking the bona fides of the bidder, provide to the bidder a prepared package of material relating to the corporation's affairs and historical financial performance. This package should be available only to bidders prepared to sign a legally-binding confidentiality agreement to protect the legitimate commercial confidentiality of the privatization candidate.

A deadline for the submission of bids should be established and after the deadline has been reached, the co-ordinating group should begin negotiations with the most promising bidders. To avoid jeopardizing unduly corporate performance and morale, the deadline for bids should be as short as possible and negotiations should proceed expeditiously.

By this step, the government's intention to privatize will be public knowledge. An effort to respond to any general or specific public concerns about privatization and to explain the benefits should be mounted.

Step 9: Once a successful bid has been negotiated, an agreement in principle should be signed by the government and the bidder, conditional on any legislative or other action necessary such as the start-up of a parallel regulatory regime. If legislation is necessary, it should be prepared in advance and discussed with the final bidders during the negotiation process.

The extent of a government's real commitment to privatization may be suspect. If the government is to make a public commitment to privatization, it should first ensure that it has all the necessary structures, people and processes in place to handle privatization with efficiency and professionalism. Governments have found that, once on the privatization road, it's often hard to get off or backtrack without significant loss of credibility.

In spite of the difficulties and risks associated with divestitures, there are no insurmountable obstacles to a government with requisite political will embarking on a program of carefully well-thought-out selected divestitures.

The confidential appendix of this paper focuses on eleven Crown corporations or parts thereof as potential divestiture candidates.

They have been chosen for one or more of the following reasons:

i) they have already been identified as privatization candidates or were set up with privatization in mind;

ii) they require a mandate or organizational review, during which privatization should be considered as one option; or

iii) they provide a potentially attractive investment opportunity and their continuing growth and stability could be enhanced by privatization.

The appendix is confidential since publication would almost certainly destroy the confidentiality necessary for commercial and competitive operations and could undermine the government's negotiating stance in any divestiture.